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PAN AMERI
TRADE IN WAR AND PEACE
RAILROADS
TOBACCO
GRAIN

PAN AMERICAN ECONOMICS

THIS BOOK HAS BEEN MANUFACTURED IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE WAR PRODUCTION BOARD IN THE INTEREST OF THE CONSERVATION OF PAPER AND OTHER IMPORTANT WAR MATERIALS.

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PREFACE

The purpose of this book is to explore the economic life of Latin America, especially as the economic structures of this vast area are outwardly oriented. In order to study the economies of the various countries, it is essential that a host of nominally domestic matters should be analyzed. Latin American economic activity cannot be understood without description and analysis of population, capital supply, resources, transportation facilities, and similar matters. Yet these aspects of Latin American economic life are of primary concern to the rest of the world only in so far as they have international economic relationships. Indeed, one of the outstanding characteristics of Latin America is the degree to which it is economically intermeshed with the rest of the world. This book focuses attention primarily upon the international aspects of the Latin American economy.

Special emphasis is also placed upon the economic relationships between Latin America and the United States. This emphasis by no means shows any explicit or implicit bias toward hemispheric autarchy, but it does reflect the long-standing significance of this phase of Latin American economics. That the United States is the leading Latin American trader, has become perhaps the ranking investor, and is currently consolidating her position would seem to justify such stress. Too great a preoccupation with this aspect of Latin American international economic relationships would, of course, badly distort the total pattern. Overemphasis would, for instance, preclude an understanding of the sharp differences in orientation of the various Latin American nations. Pan America, as used in the title of the book, refers to that group of nations constituting the Pan American Union and located south of Canada in the Western Hemisphere.

Since this book has been completed in a year when war has been waged throughout the world and has revolutionized normal economic patterns, the influence of the war cannot be minimized. The war has profoundly influenced the economies of all nations and areas. Nevertheless, a justified interest in the impact of the war should not obscure consideration of basic economic mechanisms that have long continued to function. While World War II has re-channeled Latin American

trade, altered the type of goods traded, and encouraged industrialization, the economy of Latin America remains at least a variant of that which existed prior to and including 1939. Thus most chapters of this book first sketch the long-range economic trends and processes operative in Latin America, and then consider the effects of the war.

This book has no sweeping program or policy to "sell." While we believe that insight into the economics of Pan America is of value in the determination of policy, we advocate no specific policy. This does not reflect timidity or academic aloofness, but merely the recognition that this book deals with but one sphere pertinent to policy. Since political, sociological, military, and other considerations are also of paramount importance, recommendation of policy upon the basis of economic determinism is scarcely justified.

In handling the various types of materials dealt with in this book, statistical, historical, and descriptive techniques are employed. These approaches, however, merely furnish a partial basis for and are incidental to an analytical treatment of the fundamental relationships involved. This book is not an economic encyclopedia of Pan America, and if it appears to be such it has failed in its purpose.

Misses Mary Humphrey, Aleene Baker, and Miriam Allen, of the Government Document Department of the State University of Iowa libraries, and Miss Sylvia Noffsinger, of the Periodical Reading Room, were of real assistance in collecting the vast amount of fragmentary material available. During the years in which the manuscript was written, we received the constant encouragement of Dean C. A. Phillips of the College of Commerce at the State University of Iowa, our colleagues, and our numerous friendly but tough-minded students. During that period, we were also greatly assisted by our wives Ruth and Dorothy, who acted as typists and proofreaders. We are grateful also to Elizabeth Okerbloom for her imaginative and meticulous preparation of maps, charts, and other graphical representations. These figures are based, except when specially footnoted, upon tables appearing in the Appendix. All this splendid group contributed important building materials, but we must admit our ultimate responsibility for the completed structure.

P. R. O.
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Chapter 1

ROLE OF FOREIGN TRADE IN LATIN AMERICA

FEW AREAS in the world are as dependent upon foreign trade and investment as Latin America. A few nations in that vast area have developed diversified, partially self-sustained economies, but most of the countries to the south depend for their economic existence upon other nations. These countries devote most of their abundant land and their limited labor and capital to the production of a few key commodities, usually raw materials. These exportable goods are then traded with Europe or North America, bringing in return the semi-manufactures, manufactured products, or even foodstuffs necessary in the domestic economy. It is characteristic of Latin America that goods are usually produced, not for the home market or even for a market in a near-by country, but for consumption in some distant area. It is likewise typical of the Latin American economy that sudden shifts in the demand for key raw materials, or cataclysmic changes in prices, mean prosperity or disaster, national solvency or fiscal collapse, and even subsistence or starvation. There are few areas in the entire world that have carried the principle of territorial specialization so near to its logical extreme. There likewise exist few other areas that have been content for so long to remain feeders for the great industrial regions of the world.

The impact of this extreme dependence of Latin America upon international trade and investment will be analyzed in subsequent chapters. In this preliminary analysis, however, further study of the degree to which Latin American countries and regions are oriented outward rather than inward will suffice.

The Role of Foreign Trade in Individual Economies

Generalizations concerning Latin America are always extremely hazardous, since individual nations and blocs of nations differ in so

many ways. Latin America is not an economic entity; rather it is a conglomeration of political, economic, and social areas. The various nations south of the Rio Grande are now in divergent stages of economic development. Some countries are more industrialized than others; some possess diversified economies, while others have deposited most of their economic eggs in one basket; some depend heavily and exclusively upon foreign trade, while still others are not as intimately concerned with the course of world commerce. Any cataloguing of the various Latin American nations must be more or less arbitrary, but such a process is nevertheless of value as a tool of analysis. In this section of the chapter, attention will be focused upon the degree to which the economies of the several Latin American republics are dominated by trade and finance transcending their political frontiers.

A number of Latin American nations are almost exclusively oriented abroad, depending upon exports for their prosperity and imports for their very subsistence. Most of the Central American and West Indian nations fall within this broad category. This area depends heavily upon exports of such raw materials as coffee, bananas, sugar, and cacao, and has developed neither a thriving industry nor even an adequate system of subsistence agriculture. Such countries as Haiti, the Dominican Republic, Nicaragua, and Guatemala are truly in a position where they must "export or die."[1] Haiti, despite her dense population, has virtually no local market for her export staples, imports food as well as manufactures, and has built her fiscal structure upon foreign trade. Cuba, while possessing a much greater degree of diversification than most of these smaller Caribbean countries, is nevertheless largely attuned to the sugar market. Over three-fourths of her agricultural production is exported, much of this portion going to the United States. The chaos and prolonged distress experienced by Cuba during the 1930–1939 decade reveals the marked dependence of that insular republic upon the ebb and flow of world commerce.

The only nations in the Central American–West Indian area that are not heavily dependent upon world trade are Mexico, Costa Rica, and Panama. Mexico, producing many agricultural staples and manufactures for the domestic market, is less dependent upon foreign com-

[1] See William La Varre, "Importance of Exports to Latin American Economies, Central and Caribbean America," *Foreign Commerce Weekly*, 7:3–5, 29–32, April 18, 1942.

merce than any other Caribbean country. Significantly, however, in 1937 Mexico exported 35 per cent of her total agricultural, forestry, mining, petroleum, and industrial products.[2] This proportion contrasts sharply with the 7 to 10 per cent of the United States production customarily exported. Costa Rica, while dependent upon continued exports of coffee and bananas, has developed extensive local manufactures and subsistence agriculture. Panama, whose economy is dominated by activity in the Canal Zone, is little concerned with exports, although she imports very heavily.

Several South American nations share the dependence of Central America and the West Indies upon world trade.[3] Such countries as Venezuela, Uruguay, Ecuador, Bolivia, and Paraguay are likewise very dependent upon foreign trade for their prosperity, fiscal solvency, and scale of living. Venezuela's economy, for example, is built in large part upon the production and export of petroleum. Her national wealth was estimated to be $1,110,000,000 in 1936–1937, of which petroleum accounted for 31 per cent, agricultural staples, 28 per cent, and pastoral products, 14 per cent.[4] Since most of the agricultural and pastoral production consists of such export commodities as coffee, cacao, hides, and skins, the importance of exports to the entire Venezuelan economy is amply evident.

Uruguay derives 24 per cent of her national income from exports, the shipments of wool, hides, skins, and beef alone accounting for 23 of the 24 per cent.[5] Although detailed statistics of this nature are not available for Ecuador, Paraguay, and Bolivia, apparently these three nations are also acutely sensitive to the movement of foreign trade. Their economies differ only in that their export industries are agricultural, pastoral, and mineral, respectively. All these nations depend upon exports to facilitate the purchase of desperately needed imports. Paraguay, however, differs slightly from these other nations because her economy is relatively undeveloped. Her foreign trade is also predomi-

[2] *Ibid.*, pp. 31–32.

[3] This grouping of South American countries is based in part upon statistics found in William La Varre, "Importance of Exports to Latin American Economies, South America," *Foreign Commerce Weekly*, 7:3–7, 26–29, April 11, 1942.

[4] *Ibid.*, pp. 28–29.

[5] *Ibid.*, p. 7.

nantly oriented toward a neighbor, Argentina, rather than toward a distant continent.

The reliance of the foregoing nations upon exports has been stressed, but the dependence of every one of these countries upon imports should not be overlooked. Indeed, the degree to which the resources, human and material, of these nations are devoted to export industries precludes the development of diversified economies. Hence the proceeds of their exports, when not utilized in servicing debts or investments, are utilized to purchase the goods that have not been produced internally. As indicated previously, many Latin American countries buy not only machinery, semi-manufactures, and finished goods, but also foodstuffs. Instances wherein agricultural workers produce a food staple for export and import the foods necessary for their subsistence are far from rare in these countries.

Peru, together with Cuba, is not quite so dependent upon foreign commerce as are the aforementioned nations. She possesses a rather well-developed, growing consumer goods industry and has partially diversified her economy. Yet Peru still exports about three-fourths of her mineral output,[6] and her economy lacks certain essential commodities which must be imported in large volume.

The remaining nations of South America, together with Mexico and Costa Rica in the Caribbean area, have succeeded in reducing their dependence upon world trade. The economic history of the 1930's, however, bears witness to the fact that this measure of independence and self-sufficiency is strictly relative rather than absolute. Probably the most mature, economically advanced nation of Latin America is Argentina. This nation is basically agricultural and pastoral, but industry and to a lesser degree mining are growing in importance. In terms of scale of living, measured by automobiles, radios, schools, *et al.*, Argentina most nearly approaches the real income of a modern industrial power. This scale of living, however, has not been attained through self-sufficiency and economic isolation. The necessity of importing semi-manufactures, fabricated goods, and even certain raw materials would have precluded such self-sufficiency even if the nation had been so minded. The reluctance of Argentina to enter world conflicts has not been an outgrowth of economic autarchy, but rather a mani-

[6] Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367:108, February, 1941.

festation of her tremendous dependence upon foreign markets, especially those in Europe.

Argentina's great wealth is based upon her agricultural and pastoral exports, not upon consumer industries, substantial as they are. While 63 per cent of the estimated annual production of Argentina, aggregating $2,141,000,000, is consumed domestically, 37 per cent is exported.[7] In 1937 the exports of wheat, corn, linseed, beef, and wool, in that order, accounted for 75 per cent of total exports and 23 per cent of national income.[8] Exports of cereals and pastoral products combined accounted for 93 per cent of total exports and 33 per cent of national income. Even Argentina, economic peer of all Latin American republics, is bound by ties, not of iron or even gold, but of wheat, beef, and wool, to nations beyond the seas.

Brazil, while in the process of expanding both light and heavy industry, remains largely dependent upon the exportation of raw materials. These exports make possible, incidentally, the importation of those machines, industrial raw materials, and other products so necessary to an embryonic industrial nation Exports account for 18 per cent of national production,[9] which, although a modest proportion for a Latin American nation, still orients the Brazilian economy to the north and northeast. The government of Brazil, mindful of the painful state of the coffee industry during the 1930's, as well as the earlier collapse of the Brazilian rubber industry, is persistently attempting to accentuate the diversification of the economic system.

Chile, long dependent upon the now dwindling nitrate industry, has also attempted to reduce her dependence upon foreign markets, import sources, and erratic world prices. Prostrate after the replacement of Chilean natural nitrates by the synthetic product, Chile sought to build upon her agricultural and industrial production. Copper has merely replaced nitrates, however, and Chile is far from self-sufficiency or even economic stability. In 1937, exports aggregated about 72 per cent of national production and were responsible for 40 per cent of national income, much of which still goes abroad.[10]

[7] William La Varre, "Importance of Exports to Latin American Economies, South America," *Foreign Commerce Weekly*, 7:4–5, April 11, 1942.
[8] *Ibid.*
[9] *Ibid.*, p. 7.
[10] *Ibid.*, pp. 5–7.

Colombia, with extensive manufactures for local consumption, is also relatively self-sufficient. Yet the very fact that, although placed in that category, she exports almost 20 per cent of her estimated national production[11] is a commentary upon the role of international trade in the economy of Latin America.

The nations of Latin America not only rely upon foreign trade, but they have also resorted to extreme specialization in their export industries. Spectacular instances of this concentration of production, notably Chilean nitrates, Brazilian coffee, and Caribbean bananas, coffee, and sugar, are very familiar; but the degree to which such cases are typical of the Latin American economy is perhaps not fully recognized. In 1938, eleven of the twenty republics of Latin America depended upon exports of a single product for 50 per cent or more of total export values.[12] In three cases, a single product accounted for 75 per cent or more of these total export values. Every nation in Latin America depended upon a single product for 20 per cent or more of total export values, the nature of the commodity varying from country to country. Coffee is the key export of seven nations; sugar, bananas, and cotton dominate exports of two countries each; and corn, tin, copper, cacao, silver, wool, and petroleum are featured in the export trade of a single nation each. When the market and price record of these commodities during the past decade and a half is recalled, it is apparent that such pronounced specialization has subjected Latin America to marked cyclical fluctuations. Note that eleven commodities, all raw materials whose markets are located abroad and whose prices are determined in world markets, constituted the leading exports of every country in Latin America.

When the first three exports of each Latin American nation are considered, the extent of this concentration in a few export industries is even more apparent. Where the raw materials mentioned above do not figure in the rankings, such comparable materials as linseed, nitrates, tobacco, lead, quebracho extract, meats, wheat, and hides figure prominently. Combining the three leading exports of each nation and contrasting these totals with total exports are very revealing. In nineteen of the twenty Latin American republics, a trio of products provided 50

[11] *Ibid.*, p. 28.

[12] Jaime Zuloaga, "The International Economic Relations of Latin America," *Commercial Pan America*, 10:6, January, 1941.

per cent or more of total export values. Even in Mexico, the sole exception, three products furnished 37 per cent. In eleven nations, three products furnished 75 per cent or more of total export values, whereas in six cases a trio furnished 90 per cent or more of export values. Although such concentration is the epitome of territorial specialization and division of labor, it has plunged Latin America into more than one economic holocaust.

Relative Importance of Individual Latin American Nations

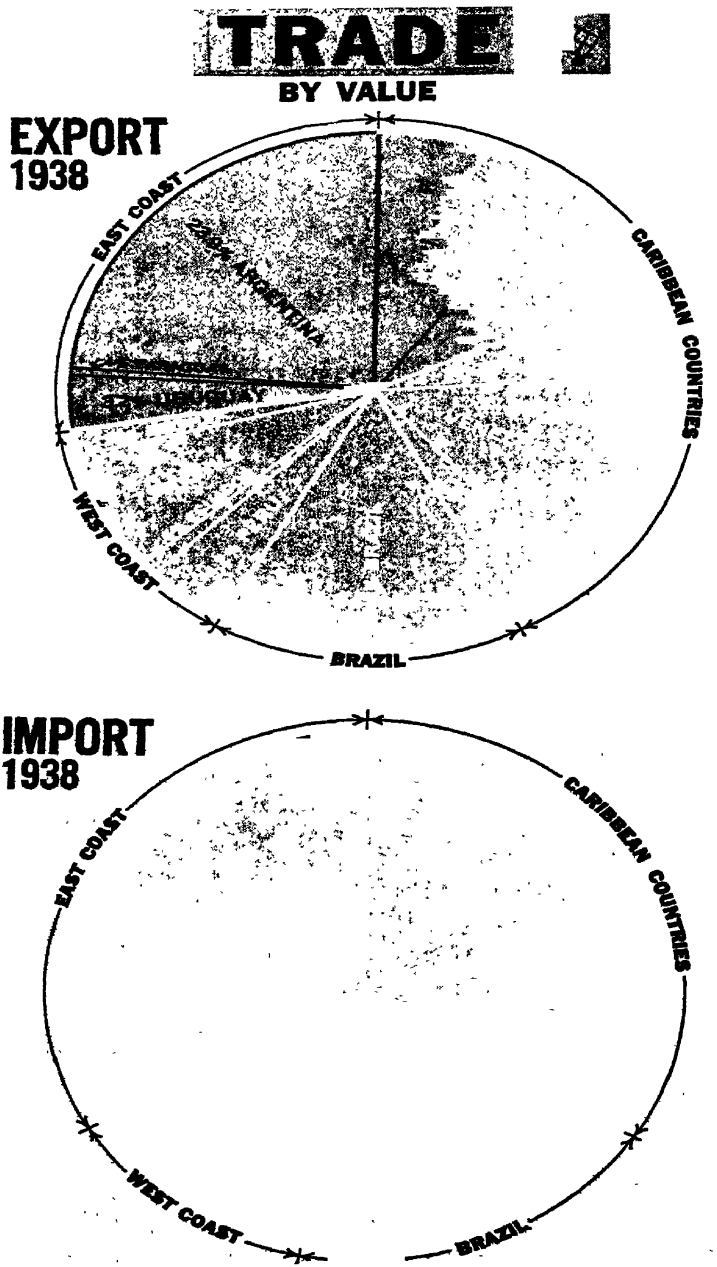
The export trade of the Latin American countries is highly concentrated in a few nations, seven of the group accounting for approximately 85 per cent of all Latin American trade during the 1929–1938 period. The relative position of the republics in the 1938 export trade of Latin America and the percentage of total exports each country furnishes are enlightening. The eight ranking exporters of Latin America in that pre-war year included Argentina, 24 per cent; Brazil, 16 per cent; Venezuela, 15 per cent; Mexico, 10 per cent; Cuba, 8 per cent; Chile, 8 per cent; Colombia, 5 per cent; and Peru, 4 per cent.[13] South America accounted for 78 per cent of Latin American export trade; Central America, 13 per cent; and the West Indies, 9 per cent.

As might be expected, inasmuch as exports are fundamentally payments for imports, the seven leading export countries are also the largest importers. In order of value of imports in 1938, these nations accounted for 84 per cent of all Latin American import trade. They ranked as follows: Argentina, 30 per cent; Brazil, 20 per cent; Mexico, Cuba, Venezuela, and Chile, each 7 per cent; and Colombia, 6 per cent.[14] South America also dominated Latin American import trade, receiving about four-fifths, or 80 per cent, of total imports. Central America accounted for 12 per cent; and the West Indies, 8 per cent. These figures reveal further the intimate relationship between exports and imports.

Changes in the relative position of the countries have occurred from time to time as a result of crop failures, depression, shifts in commercial policy, and other factors. In general, a few South American countries

[13] *Ibid.*, p. 4. For both export and import rankings, see Appendix of this book, Table 1, p. 397.

[14] *Ibid.*


TRADE
BY VALUE
EXPORT
1938
EAST COAST
CARIBBEAN COUNTRIES
WEST COAST
BRAZIL
IMPORT
1938
EAST COAST
CARIBBEAN COUNTRIES
WEST COAST
BRAZIL

have dominated foreign trade south of the Rio Grande, although Mexico and Cuba have also been important participants in world trade. Extreme care should be exercised, however, in minimizing the significance of international trade to those nations well down the line in terms of percentages of total Latin American trade. A country may be represented by a small proportion of the area's total sales abroad and yet that nation may export one or two commodities whose production is a substantial segment of that nation's economy. Some Latin American nations which do not have large aggregate trade figures likewise rely upon foreign trade for absolutely essential imports of food or manufactures.

Although World War II has profoundly influenced the volume, direction, and composition of Latin American trade, it has not drastically altered the relative shares of individual countries. To be sure, such producers of strategic minerals as Bolivia have assumed new stature, whereas several other nations have lost old markets and have had to search for new ones. Yet, in 1940, seven nations still accounted for 85 per cent of Latin American exports. Even individual rankings had changed very little, the leading exporters including: Argentina, 24 per cent; Venezuela and Brazil, each 15 per cent; Mexico, 10 per cent; Chile, 8 per cent; Cuba, 7 per cent; and Colombia, 5 per cent.[15] South America has continued to dominate Latin American trade, with the other regions of Latin America being less significant.

Latin American Balances of Payments

Any preliminary analysis of the international economic relations of Latin America which stressed trade but ignored other items in the balance of payments would be but a half-completed sketch. "Balance of payments" is used to encompass all a nation's transactions abroad. Some of these transactions involve commodities, some involve capital movements, and still others cover services. Balance of payments is thus a much broader concept than balance of trade, which only includes commodity exports and imports. Credit items in the balance of payments, of course, include exports, receipt of loans or interest payments, and all other transactions which give a country access to foreign purchasing

[15] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:93, April–May–June, 1941.

power. Debit items are merely imports, loans abroad, travel abroad, or any other dealings which establish a comparable claim upon domestic purchasing power on behalf of foreigners.

Although various Latin American nations have diverged in the precise nature of their balance of payments, in every case a correlation has existed between merchandise balances and other credit or debit items, including the movement of capital, interest and dividend payments, tourist expenditures, and the movement of gold. Unfortunately, the countries of the hemisphere do not prepare and publish balance of payments statistics on a uniform basis. They do not even agree as to the cataloguing of specific items. For example, some nations classify export of newly mined gold as a commodity credit, whereas others consider this an invisible, or non-commodity, credit item. Indeed, many Latin American countries do not publish balance of payments figures in any variety or form, although most of the necessary information is available through the operation of exchange control or other control systems. Nevertheless, certain general observations as to the nature of Latin American balances of payments can be made on the basis of information at hand.

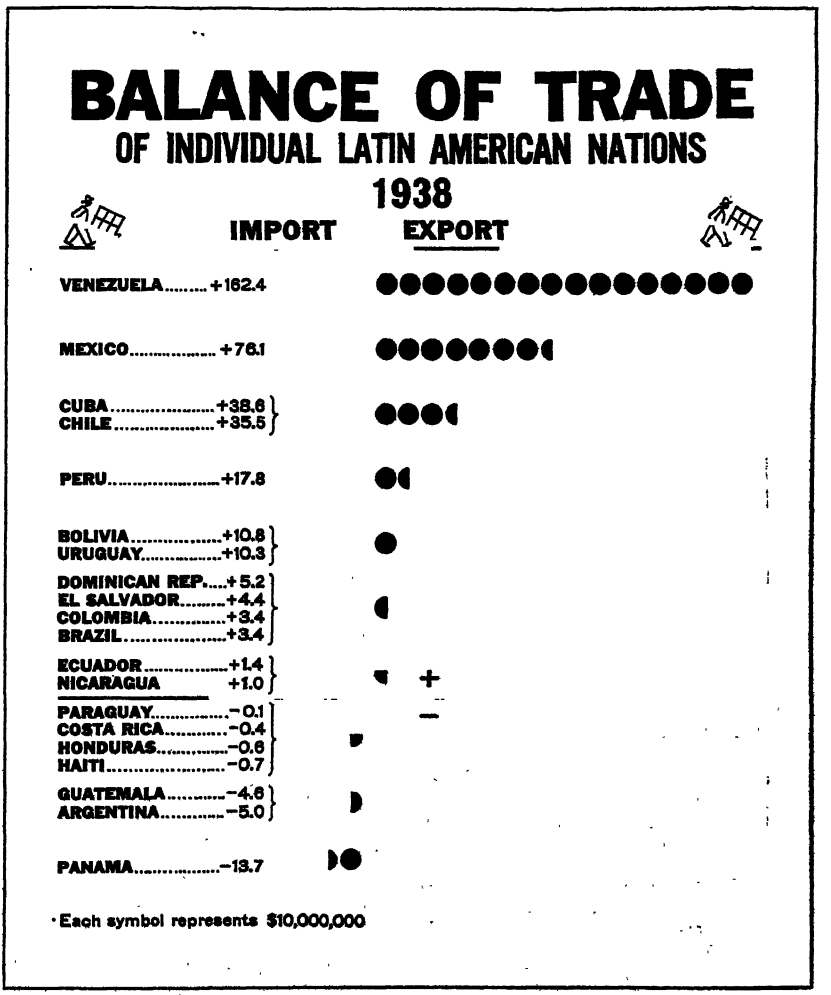
The area is normally more important as a supplier of products moving in international trade than as a market for such products, its exports over the 1929–1939 period accounting for about 10 per cent of the world total and its imports aggregating 6 to 8 per cent of world imports.[16] This situation is due in part to the debtor position of Latin America relative to the other nations of the world. Payments on foreign loans, plus payments abroad for ocean freight, insurance, and similar items have swelled the debit side of the Latin American balance of payments.

In 1938, thirteen of the twenty republics of Latin America had a so-called favorable balance of trade in their relations with the world, although in a few cases this excess of exports over imports was negligible.[17] Most of the nations having an unfavorable balance were in the Caribbean region, for an import balance is not an unusual phenomenon in that area. A continued influx of capital, as well as heavy tourist expenditures in such countries as Cuba, Mexico, and Panama, have

[16] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 27.

[17] Jaime Zuloaga, *loc. cit.*

been instrumental in maintaining this situation. Argentina also possessed a slight import balance, although 1930 and 1938 were the only years during the 1930–1939 decade when this was true.[18] This Latin



American export balance, aggregating $345,000,000, was offset by non-commodity items on the debit side. If foreign investment in Latin America in 1938 is assumed to have been at least $10,000,000,000, an assumed 5 per cent of this total, representing amortization and interest in the case of loans and profits in the case of direct investments, would

[18] Pan American Union, *Foreign Trade Series 184*, p. 3.

alone represent an outgo of some $500,000,000. This calculation demonstrates why it is possible for much of Latin America to maintain a consistently favorable balance of trade. Such items as tourist expenditures, insurance payments, and gold movements are also involved in any composite balance of payments.

Such abstractions should be supplemented, however, by analysis of the balance of payment figures of selected Latin American nations. Since the various countries differ as to the balance of commodity trade, the scope of service items, and the size and direction of capital movements, analysis of particular instances serves a useful purpose.

Balance of payment figures from even individual Latin American nations are very rare, although several countries are now attempting to remedy this deficiency. Peru has set up a balance of payments on the basis of the League of Nations formula,[19] and this statement casts considerable light upon the overall nature of Latin American trade and finance. In 1938 an appreciable export merchandise balance was offset by interest and dividends, merchandise adjustments, travel expenditures, and insurance, in that order, leaving a slight deficit in total trade and services. Gold exports in that year, however, were almost as great as interest and dividend payments by Peru. Although there was a small net outflow of long-term capital, an influx of short-term capital also created a net credit in the capital item. Gold shipments and this influx of capital more than offset the slight debit in trade and services. In 1939 the basic picture remained much the same, although totals had changed and a few items had shifted from debit to credit or vice versa. In this year a slight net credit in trade and services, plus increased exports of gold, was sufficient to more than compensate for a small-scale exodus of both long- and short-term capital.

The National Bank of Costa Rica also formulated a balance of payments for 1939.[20] Costa Rica had an appreciable import, or "unfavorable" merchandise balance, which is more or less characteristic of several nations in that area. The country also had a number of other debit items. Among those classified as "ordinary" debit items were government expenditures, private remittances, travel costs, sundry expenditures, and insurance payments, in that order. "Special" debits included

[19] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:290, April–May–June, 1941.

[20] *Ibid.*, p. 173

a fairly sizable item covering interest, dividends, and the outflow of foreign capital, plus small items consisting of rental payments and payments on foreign obligations. Imports aggregated only 83 per cent of debit items, with the remaining 17 per cent scattered among the categories mentioned above. These various debit items, especially the import balance, were offset by both "ordinary" and "special" credits. The former included sundry receipts and gold exports; the latter included a very appreciable volume of incoming foreign capital, a loan to the government from the Banana Company of Costa Rica, and invested foreign capital, in that order. Exports aggregated only 62 per cent of total credits; gold exports, 2 per cent; sundry receipts, 9 per cent; and "special" receipts, 27 per cent. The residual item in the balance of payments represented an increase in national monetary reserves.

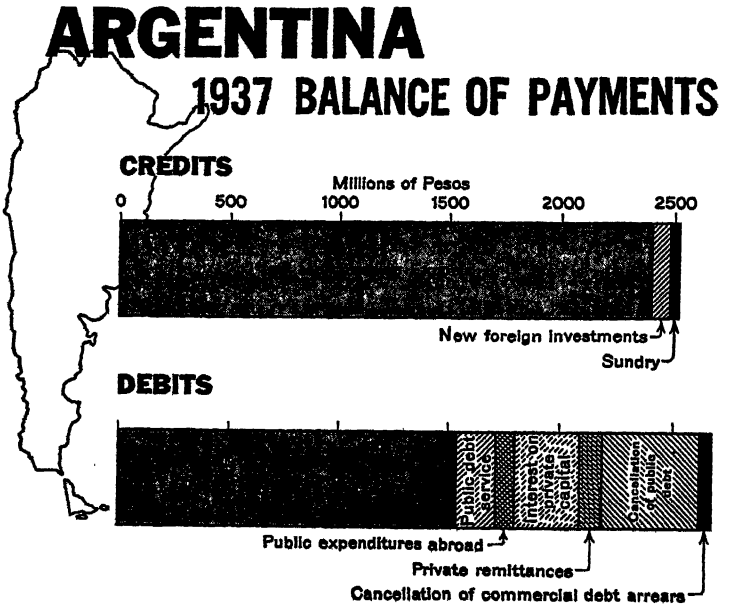
Certain other Latin American nations have prepared the equivalent of a crude balance of payments in their reports of domestic exchange control agencies. The Exchange Control Commission of Honduras, for example, has prepared a summary of its operation in the fiscal years 1938–1939 and 1939–1940.[21] In both years most of the supply of exchange came from export proceeds. The demand, which was not allowed to equal the supply, was occasioned largely by imports, but was augmented by exchange needed for the payment of salaries and wages in foreign currency as well as for payment of interest, dividends, services, and other invisible debit items.

The most comprehensive and enlightening balance of payments yet compiled for a Latin American country was prepared for Argentina.[22] This compilation extends from 1913 to 1937, and it reveals in striking fashion the change that the past two decades have wrought in this powerful Latin American nation. For illustrative purposes, the period 1922–1923 and the year 1935 afford a significant contrast. In the former period, Argentina had a very slight merchandise export balance, although it assumed but negligible proportions. Other non-financial credit items were trivial, consisting principally of tourist travel in Argentina and small gold exports. The non-financial debit items included

[21] *Ibid.*

[22] See Vernon Phelps, *The International Economic Position of Argentina*, especially the table following p. 239; also Virgil Salera, *Exchange Control and the Argentine Market*, pp. 180–189. For 1937–1941 figures, see Banco Central de la Republica Argentina, *Annual Report, 1941*, pp. 17–24.

immigrant remittances and expenditures abroad by citizens, although these items were also relatively small. The financial or capital transactions, however, were extremely significant in that period. While the nation paid out large sums in servicing public and private debts which had previously been contracted, this outlay was counteracted by con-



tinuing large-scale inflows of capital. Argentina increased her debtor position in that period by an appreciable amount. The significant factor in the balance of payments during 1922–1923 was that the influx of foreign capital was so large as to constitute a major item.

In 1935, conditions had changed notably. Argentina's balance of trade was now favorable by a very appreciable margin. Invisible credit items, including exporter's profits, port dues, diplomatic expenses, miscellaneous income, and gold exports, in that order, were much larger than in 1922–1923. On the other hand, such debit items as the servicing of public and private debts had also increased; and remittances and expenditures abroad, gifts, and gold imports were significant minor

items. Capital transactions abroad virtually canceled themselves out, with a moderate influx of capital offsetting an exodus of capital. During the year, the Argentine debtor position was decreased slightly, in sharp contrast to the 1920's. A significant feature of the Argentine balance of payments during the 1930's was the decided degree to which public debt service, interest on private capital, and private remittances dwarfed new inflows of capital.[23]

Although an abnormal number of Latin American nations experienced import balances in 1940, heavy raw material purchases by the United States and the United Kingdom soon replaced curtailed markets and restored the customary favorable balance of trade. In 1941 and thereafter, Brazil, Argentina, and Cuba, among others, had large export balances. Cuba had her largest favorable balance in 1941 since the 1920's.[24]

Conclusion

Foreign trade is of paramount importance to every Latin American nation. Through the channels of world commerce go the great export staples which sustain many a Latin American economy. From all corners of the globe, but especially from North America and Europe, come the essential imports of food, clothing, machinery, and other manufactures. Although such nations as Argentina and Brazil may furnish much of the volume of Latin American foreign commerce, they are perhaps not so completely dependent upon such trade as are other, smaller nations. This extreme reliance upon international trade is accentuated by sharp specialization upon a handful of exportable raw materials. The economic position of Latin America relative to the remainder of the world cannot be appreciated, however, unless non-merchandise factors are also included. Latin America has long been a great debtor area, and capital movements, repayment of interest and principal, and service payments have counteracted commodity balances. As will be emphasized in subsequent chapters, an intimate relationship exists between foreign trade and foreign investment in Latin America.

[23] See Appendix, Table 2, p. 398.

[24] William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America*, 11:117, April–May–June, 1942.

Chapter 2

COMPOSITION OF PAN AMERICAN TRADE

THE LATIN American nations were forged in the pattern of nineteenth century liberalism, in which economic internationalism played a dominant role. The group of twenty republics south of the Rio Grande became a part of a rather well-integrated world economy serving to complement the economic activity of the major industrial nations of the world. The sale of food and raw materials in exchange for the products of more highly developed nations produced a pattern of economic relationships in which Latin America played the role of a "colonial" area. Although conformity to this complementary pattern varies within the area, it is still the fundamental framework of Latin America's economic relations with the rest of the world. An overall picture of the general pattern of economic life is essential in order to see the points at which the various portions of the area fit into a world economy.

Agricultural Exports

The basic economy of Latin America is agricultural, with an estimated two-thirds of the population engaged in agricultural pursuits, a considerable portion of which is carried on by self-sufficient family units.[1] In tropical and subtropical areas, coffee, sugar, cotton, bananas, cacao, henequen and sisal, tobacco, rice, rubber, chicle, and various fruits and vegetables are produced. Wheat, corn, oats, barley, potatoes, alfalfa, flaxseed, and a variety of cereals are typical of temperate zone production.

[1] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 12. This citation is based, as are others from the Tariff Commission study of Latin America, upon the original multilithed version. The subsequent printed edition, *Second Series Report 146*, is virtually unchanged in content and is organized in parallel fashion.

Figures for 1938 trade show that exports of agricultural products from the Central American area account for at least seven-tenths of total sales abroad.[2] Approximately nine-tenths of the export trade of Costa Rica was composed of three commodities—coffee, bananas, and cacao. Coffee alone accounted for almost nine-tenths of El Salvador's exports; coffee and bananas, more than nine-tenths of Guatemala's shipments; bananas, more than four-fifths of the export trade of Honduras. Panama and Nicaragua relied chiefly upon coffee and bananas for approximately three-fourths of their sales abroad.

The role played by agricultural products in the 1938 export trade of the West Indies islands is of equal significance as a share of total sales abroad. Sugar accounted for seven-tenths of Cuba's exports and for six-tenths of the foreign sales of the Dominican Republic. Coffee, cotton, and sugar made up over four-fifths of Haiti's sales, with coffee accounting for three-fifths of the total.

Exports of the South American countries, with the exception of Bolivia, Chile, Peru, and Venezuela, also consisted in large part of agricultural products. Linseed and wheat accounted for approximately one-half of Argentina's exports in 1938. The significance of coffee in the export trade of Brazil is common knowledge, almost one-half of that nation's total exports in 1938 being made up of this one commodity. If exports of cotton, cacao, and oil-producing seeds and nuts are added, approximately seven-tenths of Brazil's sales abroad is accounted for.[3] Peru exports cotton in an amount slightly in excess of one-fourth of her total foreign sales, and cotton occupies approximately the same relative position in Paraguay's exports. Coffee accounts for nearly three-fifths of Colombia's exports, and cocoa makes up one-fifth of Ecuador's total shipments abroad.[4]

Pastoral Exports

Pastoral industries also play an important part in the economic life of Latin America. Improved stock, more adequate transportation, and the introduction of refrigeration facilities have combined with climate and abundant grazing lands to develop stock raising and allied indus-

[2] See Appendix, Table 3, p. 399.

[3] C. K. Ludewig, "Annual Economic Survey of Latin America, 1939," *Commercial Pan America*, 9:80, April–May–June, 1940.

[4] See Appendix, Table 3, p. 399.

PRINCIPAL COMMODITIES
EXPORTED IN 1938
BY COUNTRIES



NATIONS	COMMODITIES 1	2	3
MEXICO	Silver 22	Lead 10	Petroleum 6
CUBA	Sugar 73	Tobacco 6	–
DOMINICAN REP.	Sugar 60	Cocoa 13	Coffee 7
HAITI	Coffee 62	Cotton 15	Sugar 8
[illegible]	59	24	10
EL SALVADOR	Coffee 89	Gold and Silver 6	–
GUATEMALA	Coffee 70	Bananas 25	–
HONDURAS	Bananas 82	Gold and Silver 9	–
NICARAGUA	Coffee 46	Bananas 38	Gold 9
PANAMA	Bananas 74	–	–
COLOMBIA	Coffee 58	Petroleum 16	Gold 13
VENEZUELA	Petroleum 89	Coffee 5	–
BRAZIL	Coffee 45	Cotton 19	Cocoa 6
BOLIVIA	Tin 71	Silver 12	–
CHILE	Copper 38	Nitrate 28	–
ECUADOR	Cocoa 31	Minerals 16	Petroleum 13
PERU	Cotton 27	Petroleum 23	Copper 13
ARGENTINA	Corn 27	Linseed 13	Wheat 10
PARAGUAY	Cotton 28	Quebracho Extract 22	Hides 12
URUGUAY	Wool 40	Meats 9	Hides 8

In percentage of value

tries. As a result, the export of pastoral products has become an important factor in the foreign trade of Uruguay, Argentina, Paraguay, and Brazil. Fresh, frozen, chilled, and canned meats, wool, hides and skins, and tallow are the leading pastoral products exported.

Animals and animal products totaled more than four-fifths of all exports from Uruguay in 1938, with wool alone accounting for two-fifths of the total.[5] Frozen, chilled, and canned meats, hides and skins, tallow, and other animal products constituted over two-fifths of Argentina's total exports in the same year. Paraguay's exports in this category made up slightly more than one-third the total, cattle hides being the most important item in this classification. Hides and skins, frozen, chilled and canned meats, and other animal materials accounted for only one-tenth of Brazil's total exports.

Mineral Exports

Various mineral resources are found throughout Latin America, but location of deposits, transportation difficulties, and lack of capital have retarded development of many of them. Petroleum, copper, tin, lead, zinc, gold, silver, and sodium nitrate have been developed extensively. Coal is found in substantial deposits, most of which are inaccessible, South America ranking last among all continents of the world in coal production. Iron ore deposits in some countries are of high grade, but the absence of conveniently located coal and inadequate transportation have postponed their development. Petroleum, copper, tin, gold, silver, lead, zinc, and manganese ore are leading mineral exports. Several other mineral resources enter international trade in small amounts.

Mineral products make up the chief export trade of Bolivia, Chile, Venezuela, Peru, and Mexico. In 1938 approximately nine-tenths of Bolivia's exports was made up of minerals, tin alone accounting for about seven-tenths of the total.[6] Over three-fourths of Chile's exports consisted of mineral products, copper bars and nitrates being the most important items.[7] Venezuela's export trade was dominated by crude

[5] Material in this paragraph is taken from U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1, 3, 7, and 9.

[6] C. K. Ludewig, *op. cit.*, p. 73.

[7] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 4, p. 28.

petroleum and its products, which made up nine-tenths of the total.[8] Approximately two-thirds of Peru's foreign sales consisted of mineral products, petroleum, copper, and its concentrates being the leading items in this category.[9] Mexico, with a more diversified mineral-producing area, concentrated almost four-fifths of her export trade in minerals and mineral products. Silver, gold, lead, zinc, petroleum, copper, and antimony were the leading items.[10] Colombia's export of mineral products, excluding gold, consisted chiefly of petroleum, which accounted for approximately one-fourth of total exports.[11] Crude petroleum, cyanide precipitates, silver, and gold accounted for approximately one-third of Ecuador's total exports.[12]

At this point special mention should be made of gold and silver. Latin America has long been an important exporter of these metals, practically all of which have gone to the United States in recent years. The price paid for gold by the United States government, in carrying out its monetary policy, has been a very important factor in expanding production and exportation of this metal since 1933. The United States Silver Purchase Program, inaugurated in 1934, has been the most influential factor in the export of silver from Mexico. Exports of the precious metals are newly mined and in most cases are considered by the exporting countries as commodity shipments similar to other exports. In only a few countries, such as Argentina, are gold and silver shipments withdrawals from monetary reserves and therefore considered as balancing items in international transactions.

Exports of gold and silver accounted for three-tenths of total sales from Mexico in 1938, the proportion of gold being slightly in excess of that of silver. Colombia's export of gold was approximately one-eighth of total sales abroad. Gold in bars made up three-tenths of Peruvian exports in 1938, and some gold and silver coins were also sold abroad. Silver and gold in bars formed slightly less than one-tenth of Ecuador's exports in the same year.[13] Gold ranked second as a commodity ex-

[8] *Ibid.*, Section 10, p. 19.

[9] Jaime Zuloaga, "The International Economic Relations of Latin America," *Commercial Pan America*, 10:6, January, 1941.

[10] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 17, p. 53.

[11] C. K. Ludewig, *op. cit.*, p. 104.

[12] *Ibid.*, p. 132.

[13] See U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 5, 6, 8, and 17.

port from Nicaragua, accounting for slightly more than one-fourth of total sales abroad.[14] Other exporters of precious metals are Venezuela, Brazil, and Chile.

Relative Importance of Individual Export Commodities in Total Export Trade

The preceding description of Latin American export trade only points out the relative position of different classes of products in the export trade of the various countries. Another approach to the export trade of the area is to inquire into the relative importance of different commodities in the foreign sales of the region as a whole.

Such an analysis reveals that six commodities accounted for slightly over one-half of the total export value, in dollars, of Latin American trade in 1938.[15] These commodities, in order of value, and the percentages of each in the total, were: petroleum 17, coffee 13, meats 7, sugar 6, copper 6, and wool 5.[16] This list does not include an item classified as "gold and silver and other products." As has been pointed out above, gold serves as a commodity in the commerce of Latin American nations, and foreign trade statistics in the various countries are not uniform in the handling of this item. Inclusion of the precious metals and "other products" in the list of exports would place this item in second place, accounting for 14 per cent of total export value. Thus, only four commodity classifications would constitute one-half the total value of Latin American export trade in 1938.[17]

Export Commodities by Countries

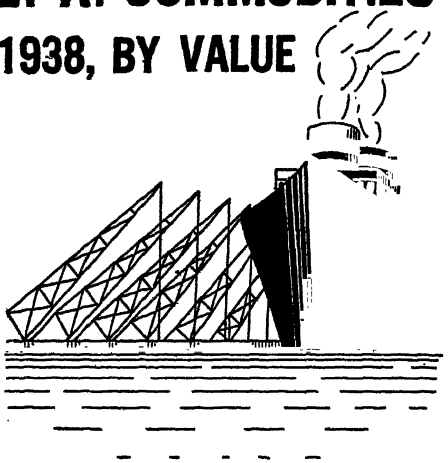
Another important element in the description of Latin American export trade is the degree to which the individual countries contribute to the sales of the principal export commodities. If the six leading commodities, exclusive of gold and silver and "other products," are considered in terms of dollar value for 1938, the shares of the important exporting countries are striking.

[14] "Gold and Silver in Nicaragua," *Commercial Pan America*, 10:391, November, 1941.

[15] Jaime Zuloaga, *op. cit.*, p. 5.

[16] See Appendix, Table 4, p. 400.

PRINCIPAL L. A. COMMODITIES EXPORTED IN 1938, BY VALUE



— Petroleum 17%

— Coffee 13%

— Meats 7%

— Sugar 6%

— Copper 6%

— Wool 5%

— Cotton 4%

— Metals other than copper and tin 4%

— Hides and skins 3%

— Wheat 3%

— Linseed 3%

— Corn 3%

— Nuts, waxes, oils 2%

— Nitrates 2%

— Cereals, other than wheat, corn, and linseed 2%

Bananas 2%

Tin 1%

Cabinet woods, lumber, and quebracho 1%

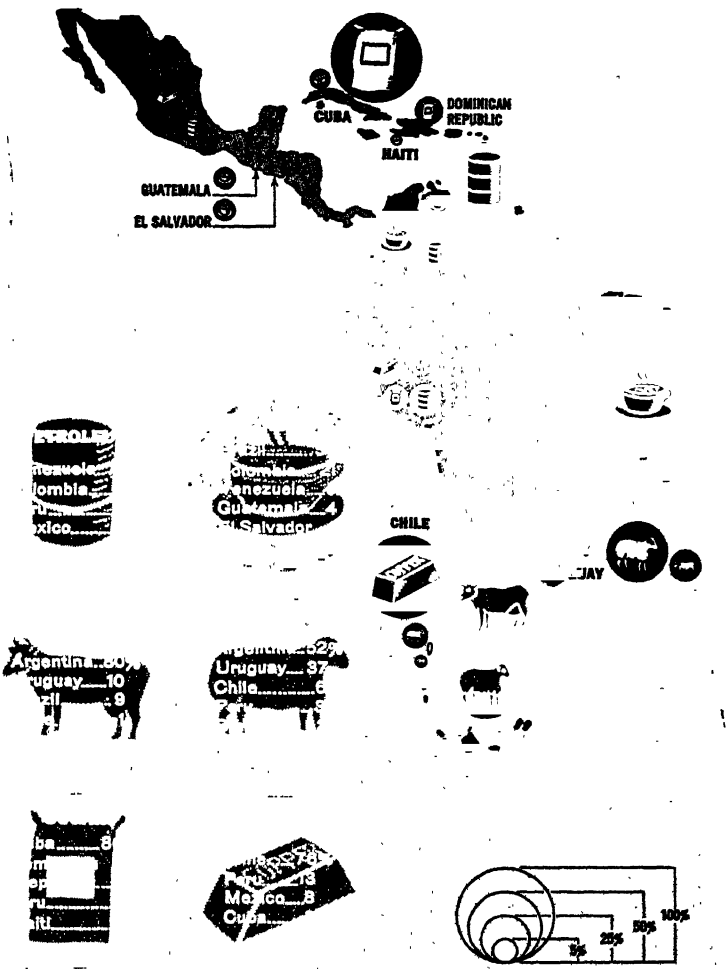
Cocoa 1%

Henequin and other fibers 1%

— Gold, silver, and other products 14%

Bar represents 100% of total exports, by value

SHARE OF INDIVIDUAL COUNTRIES IN 6 LEADING LATIN AMERICAN EXPORTS BY VALUE-1938



Venezuela accounts for almost three-fourths of all petroleum exports with Colombia in second place exporting less than one-tenth the total Peru and Mexico, in the next two ranking positions, bring the combined shares of these four countries within 2 per cent of total petroleum sales by all of Latin America.[18] These 1938 ratings are no doubt influenced by special circumstances since Mexico normally ranks next to Venezuela in petroleum exports.

Brazil and Colombia account for four-fifths of all coffee exports, Brazil's share alone being almost three-fifths. Venezuela, Guatemala, El Salvador, Mexico, Costa Rica, Haiti, and Nicaragua are next in order of importance. The share of these six nations combined makes up nearly all the remaining one-fifth.

Meat exports come from only four countries. Argentina contributes eight-tenths of the total, Uruguay one-tenth, and Brazil and Chile the remainder.

Cuba supplies over four-fifths of the sugar exports from Latin America. The Dominican Republic, Peru, and Haiti account for practically all the remaining one-fifth.

Three-fourths of all copper exports comes from Chile. Peru, Mexico, and Cuba share the remainder.

Argentina exports slightly more than one-half the wool sold abroad. Uruguay is next, with almost two-fifths. Chile, Brazil, and Peru are the other wool-exporting nations.

Latin American Imports

Products brought to Latin America in exchange for its exports are largely complementary to production in that area. Imports include a wide range and variety of items of consumption and production goods. Non-durable consumption goods imported include textiles, clothing, and prepared foodstuffs. Important items classed as durable consumption goods are radios, electric refrigerators, automobiles, tires, and rubber goods.

In general, the purchase of imported consumption goods is confined principally to a small proportion of the population, mostly in larger cities. The lack of economic development throughout the area in general has precluded a distribution of purchasing power to the masses

[18] See Appendix, Table 5, p. 400.

comparable to that in the industrial countries with which Latin America trades. At least two-thirds of the people is engaged in wresting from nature the bare necessities of food, clothing, and shelter. To them, purchasing power to be expended on articles that come from abroad is an unknown quantity. The profits of production and sale go to owners of the larger estates, the commercial plantations, and the mines. As a result, the scale of living for the great majority of people is in sharp contrast to that of the modern urban centers.

Imports of production goods are made up of those items needed by a typical non-industrial area. Included in this category are chemicals, petroleum, coal, agricultural and manufacturing machinery, electric equipment, transportation equipment, finished and semi-finished iron and steel products, and a varied list of other products.

Textiles constitute the leading import in at least eight of the Latin American nations and is an important item in practically all the others, with the exception of Brazil and Costa Rica. This is true even in such wool-exporting countries as Argentina and Uruguay, and also in Peru, whose export of cotton is in excess of one-fourth her total export sales.

Foodstuffs appear in the list of leading imports in approximately half the Latin American nations. Exceptions are noted, of course, in Argentina, Brazil, Colombia, Ecuador, Mexico, and some of the Central American nations.

Fuel and lubricants are important items in the import trade of Argentina, Bolivia, Brazil, Costa Rica, Cuba, Guatemala, Honduras, Nicaragua, Paraguay, and Uruguay.

Throughout the area in general, motor vehicles, machinery, tools, chemicals, and pharmaceutical products, transportation equipment, iron and steel manufactures, electrical apparatus, and paper and cardboard manufactures are included in the list of leading imports.[19]

The foregoing list of imports shows a high degree of dependence upon manufactured and processed products. Export trade has been emphasized to the extent that many nations of the area depend upon foreign sources not only for equipment and durable consumption goods, but also for food and clothing. The appearance of machinery and tools and iron and steel products in import trade emphasizes the lack of industrial development. Imports of textiles and food products demon-

[19] See U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1–20.

strate the intense specialization, even in food, wool, and cotton-producing countries, in export production.

Argentina presents a striking example of specialization for export. Despite the fact that this nation is a large wool-producing area, one-fifth of her foreign purchases is used to obtain clothing for her population.[20] Instead of producing textiles in sufficient amounts to meet domestic demands, meat packing has been encouraged, and corn and wheat are produced in competition with the United States in world markets.

The relationship between import and export trade demonstrates the vulnerable economic position of Latin America. When world markets collapse, losses are not shared by export industries alone; the very fabric of domestic economic life is torn. Latin Americans are not only deprived of power to purchase luxury products, but even the satisfaction of primary wants of life must be modified.

Impact of World War II

The preceding discussion has called attention to the normal composition of Latin American foreign trade. The outbreak and continuance of World War II have forced this normal pattern to be shifted in such a manner as to raise serious problems in the economic life of every nation of the Latin American area. The outbreak of war threatened the nations with the loss of important markets. At the same time, however, the demands of belligerent countries increased the importance of metals, wool, hides and skins, fibers, and other materials of war in export trade. The continued spread of hostilities, increasingly stringent shipping blockades, and the shortages of shipping have necessitated the withdrawal of ships for more urgent use as former Latin American customers have been forced to place more emphasis upon the purchase of materials of war.

Export commodities such as coffee, cacao beans, bananas, corn, wheat, cotton, and linseed have lost importance as shares in total export trade. In Argentina, for example, 1941 shipments of agricultural products constituted 23 per cent of the total value of exports as compared with 42 per cent in 1940. Most significant declines were recorded in wheat,

[20] Jaime Zuloaga, *op. cit.*, p. 16.

corn, and linseed.[21] On the other hand, exports of cattle products, meats, hides, wool, and dairy products, which constituted 49 per cent of total value of export trade in 1940, accounted for 62 per cent of the total in 1941. Reduced emphasis upon purchase of such agricultural exports as coffee, bananas, and cacao beans struck a blow particularly to the smaller nations of the Central American area. On the other hand, some nations experienced gains in the export of mineral products. In Bolivia, for example, tin exports in 1941 increased in value by 20 per cent over those in 1940.[22] Other mineral exports increased by a like amount whereas the exports of other products declined by 69 per cent. Brazil became increasingly important in 1941 as a source of strategic minerals, practically every mineral export showing an increase in 1941. Most notable increases were shown in exports of quartz, diamonds, and manganese.[23] Exports of vegetable oils, principally cotton seed, oiticica, and castor, showed marked increases also. Exports of copper from Chile attained record heights in 1941, and the nitrate industry in that country is being revived by the demands of World War II.[24] The value of mineral exports from Cuba advanced 64 per cent in 1941 over 1940, and the export of fruit and vegetables, fiber, and rope declined.[25]

Such examples as those cited above indicate the general nature of shifting emphasis upon export commodities as a result of the demands of war. Blockaded markets were also important sources of supply, however, and alternative sources were forced to control exports in the interests of their own programs of defense and war. Consequently, Latin America is facing growing shortages of imported fuel and raw materials, machinery, chemicals, electric appliances and equipment, tin plate, iron and steel products, textiles, and certain foodstuffs.[26] These are the imports considered indispensable for maintaining production at home and meeting domestic consumption. True, the difficulty in se-

[21] William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America,* 11:56, April–May–June, 1942.

[22] *Ibid.,* p. 71.

[23] *Ibid.,* p. 82.

[24] "War's Effect on Chilean Economy," *Foreign Commerce Weekly,* 9:5, October 3, 1942, and Karl Falk, "Chile's White Gold Stages a Comeback," *Foreign Commerce Weekly,* 8:3, September 5, 1942.

[25] William Raleigh and Eugene Ysita, *op. cit.,* p. 119.

[26] John C. de Wilde, "Wartime Economic Cooperation in the Americas," *Foreign Policy Reports,* 17:293, February 15, 1942.

curing manufactured goods abroad has given impetus to local industry, but such domestic expansion is limited by the dependence upon imported raw materials, machinery, and semi-manufactured products.[27] Increased mining activity and new demands upon local woolen and cotton mills and other producers of consumer goods have increased the pressure upon foreign sources of supply. Threats to the safety of the Western Hemisphere have brought continued modifications in the composition of foreign trade as both production and consumption goods have made way for bare essentials. Latin American concern over the loss of export markets has turned to still greater concern over maintaining imports.

Latin American Exports to the United States

For purposes of analyzing the trade of the United States with Latin America, the countries may be divided into four geographical regions: the Caribbean group, including the Central American nations, the West Indies, Mexico, Colombia, and Venezuela; Brazil; West Coast South American countries, Bolivia, Chile, Ecuador, and Peru; East Coast South American countries, Argentina, Paraguay, and Uruguay.[28]

Commodities sent to the United States by the countries of the Caribbean group include such agricultural products as sugar, coffee, tobacco, bananas, cacao, chicle, and vegetable fibers. Mineral products exported are gold and silver, manganese, tin, copper, lead, zinc, and petroleum. The position held by the United States in the trade of the region is largely explained by the fact that, with the exception of northern Mexico, these are tropical countries. As a result, their agricultural products are, for the most part, complementary to production in the United States. Sugar and tobacco are exceptions to this general complementary pattern, but the United States is an importer of both commodities.

Crude petroleum is the most important item in Venezuela's exports to the United States. This is explained by the fact that Venezuelan crude oil is more suitable for making heavy petroleum products, whereas

[27] See "Brazil's Economy in 1941," *Foreign Commerce Weekly*, 8:5, July 25, 1942.

[28] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 46.

domestic petroleum is a better source of gasoline and light petroleum products. Although silver and gold account for a larger share of United States imports from Mexico, the wide range of natural resources in that country makes possible a diverse trade in minerals, fruits, vegetables, and textile fibers.[29] Coffee, gold, bananas, platinum, and petroleum are Colombia's leading exports to the United States.

Coffee, the largest Brazilian export, finds its greatest market in the United States. Other tropical products coming from Brazil are cacao, babassu nuts, and Brazil nuts. Manganese, hides, and skins are also bought from Brazil.

The export trade of the West Coast South American countries with the United States is normally proportionately less than that of countries farther to the north. The economies of the West Coast countries are dominated by the production of minerals, principally for export.

Bolivian sales to the United States are chiefly unrefined metals, antimony and tungsten ores being the principal items. Copper, lead, and tin are other metals exported in relatively small amounts. Other United States purchases from Bolivia are crude rubber, Brazil nuts, and hides and skins. Sodium nitrate and copper customarily account for more than three-fourths of the United States imports from Chile, iron ore and crude iodine also being among the leading items purchased.[30] Leading United States imports from Ecuador are cacao beans, coffee, bananas, unfinished Panama hats, balsa wood, and tagua nuts. Unrefined copper is the principal commodity imported from Peru, followed, in order of importance, by cane sugar, zinc ore, vanadium ore, hair of the alpaca, and lead ore.

The East Coast South American countries of the temperate zone, depending largely upon the production of pastoral and agricultural commodities, have found trade with the United States less important than has any other region of Latin America. These countries are exporters of foodstuffs which the United States produces in large volume. Wheat, corn, meat and meat products, wool, and hides and skins are outstanding examples. Nevertheless, flaxseed, canned meats, wool, hides and skins, and quebracho extract are purchased from all three countries.[31]

[29] The Pan American Union, *Foreign Trade Series* 196, p. 12.

[30] See U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 4, 6, 8.

[31] *Ibid.*, Part I, pp. 59–60.

U. S. TRADE WITH LATIN AMERICA BY COMMODITY GROUPS



1938 EXPORTS IMPORTS

MACHINERY AND VEHICLES...

WOOD AND PAPER.....

MISCELLANEOUS.....

ANIMALS AND ANIMAL PRODUCTS, INEDIBLE.....

CHEMICAL AND RELATED PRODUCTS

ANIMAL AND ANIMAL PRODUCTS, EDIBLE

TEXTILE FIBERS AND MANUFACTURES.....

NON-METALLIC MINERALS.....

METALS AND MANUFACTURES EXCEPT MACHINERY AND VEHICLES

VEGETABLE PRODUCTS INEDIBLE, EXCEPT FIBERS AND WOOD

VEGETABLE FOOD PRODUCTS AND BEVERAGES.....

Each quarter-inch bar (■) represents 10 per cent of U.S. exports to imports from Latin America

United States imports from Latin America by commodity groups in 1938 show that vegetable food products and beverages account for slightly more than three-fifths of the total value of imports. This classification is composed chiefly of coffee, sugar, bananas, cocoa, and molasses.[32] The next most important group, inedible vegetable products, is made up principally of flaxseed, tobacco, carnauba wax, castor beans, and quebracho extract. One-tenth of the total imports is included in this commodity group.[33] Metals and manufactures, chiefly unrefined copper and manganese ore, account for slightly less than one-tenth of the total imports, but are the third ranking group in terms of value. These three groups combined constitute over four-fifths of the total United States purchases from the Latin American area.

Latin American Imports from the United States

United States exports to Latin America are in marked contrast to the products purchased. The sale of manufactured and semi-manufactured products is equal to the position of crude materials and foodstuffs in import trade. Automobiles, trucks, mining machinery, electrical machinery, agricultural equipment, cotton cloth, and wheat flour are among the major exports customarily moving to Latin American markets. This is part of a generally complementary trade pattern.

Exports to the Caribbean region are largely complementary to production in that region. Producing basic foodstuffs for local consumption, and tropical agricultural and forest products and minerals for export, these countries must purchase abroad most of their manufactured articles, both for consumption and production. Machinery and vehicles, metals and manufactures, and textile manufactures are the leading types of exports to most of those non-industrialized nations. Flour, railroad ties, lard, radio sets, pharmaceutical products, chemicals, vegetable food products, edible animal products, gasoline, and wire are individual items to be noted in the exports to practically the entire region.[34] Exports to Cuba differ considerably from the general pattern, since food products and textiles constitute a proportionately larger part, and machinery and

[32] See Appendix, Table 6, p. 401.

[33] *Ibid.*

[34] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1–20.

vehicles a smaller part of the total trade.[35] Rice, flour, lard, cotton cloth, rayon piece goods, crude petroleum, and passenger cars make up the leading items in United States sales in the Cuban market. This large share of consumer's goods, particularly foodstuffs and textiles, is a reflection chiefly of the high degree of specialization by Cuba in sugar and tobacco.

Exports to Brazil consist of a large variety of consumption and production goods. The development of Brazilian industries, however, has been reflected in the larger proportion of production goods in total United States sales than in the Caribbean region.[36] Canned foodstuffs, radios, electric refrigerators, automobiles, industrial and agricultural machinery, finished and semi-finished iron and steel products are typical Brazilian purchases.

United States sales to Bolivia are composed largely of machinery and vehicles, mining machinery being an important item. Fuel oil, automobile parts, motor trucks, lubricating oil, tin plate, automobiles, steel sheets, raw cotton, and cotton yarn are the important items sold to Chile. The leading items sold to Ecuador are wheat flour, motor trucks, lard, mining machinery, passenger cars, and automobile tires. Manufactures, principally machinery and vehicles, and semi-manufactures of iron and steel make up most exports to Peru.

As in other Latin American countries, manufactured goods dominate United States exports to Argentina. Leading items customarily sold in that market by the United States are passenger cars, automobile parts, motor trucks, crude petroleum, lumber, and agricultural machinery. Trucks, passenger cars, tin plate, automobile parts, radio sets, and electric refrigerators are the leading export items to Paraguay. Exports to Uruguay list tin plate, lubricating oil, automobile parts, passenger cars, cotton carded yarn, and wheel tractors as leading items.

An analysis of exports by commodity groups in 1938 shows that machinery and vehicles made up two-fifths of the total value of United States sales in Latin America.[37] Metals and manufactures, next in order of importance, constituted slightly more than one-eighth of the total. Non-metallic minerals, third in importance, amounted to almost one-tenth.

[35] *Ibid.*, Part I, p. 76.
[36] *Ibid.*, p. 55.
[37] See Appendix, Table 7, p. 401.

Continental Contrasts

A general overall picture of trading relationships of the Latin American nations may be seen by an analysis of the share of each continent in the exports and imports of the United States by economic classes.[38] This classification applies only to the South American portion of Latin America, but a similar comparison for the area in general would show the same type of relationships. In 1938, South America's share in United States exports of crude materials was barely in excess of one per cent as compared to Europe's share of over one-half.[39] Foodstuffs and beverages in the export trade of the United States show Europe's share to have been slightly in excess of three-fifths, whereas South America, an exporter of such items, took only 3 per cent. Semi-manufactures to South America were less than one-tenth of total United States exports as contrasted with 45 per cent of the total going to Europe. Finished manufactures, the largest share for South America in the export trade of the United States, constituted 16 per cent of the total as compared to Europe's 30 per cent.

Equally revealing comparisons of South America and Europe are observable in the import trade of the United States. In 1938, South America sent almost as large a share of crude materials to United States markets as did the continent of Europe, the comparison being 14 per cent against 16 per cent. Foodstuffs and beverages from South America, however, constitute a larger share of total United States imports of this class than those from any other continent except North America. South America accounted for slightly more than one-fourth of the total; Europe's share was one-fifth. In the semi-manufactures group, Europe's share was two-fifths as contrasted with less than one-tenth for South America. The contrast in finished manufactures, of course, is to be expected, Europe's share being one-half and South America furnishing less than one-half of one per cent.

The share of each economic class in the total exports and imports of the United States by continents indicates still more clearly that South American countries have built their foreign trade upon a basis of ex-

[38] U. S. Department of Commerce, *Statistical Abstract of the United States, 1940*, p. 503.

[39] See Appendix, Table 8, p. 402.

changing raw materials for manufactures.[40] In 1938, United States export of crude materials to Europe was over one-fourth of the total sales to that continent, whereas these materials accounted for only 2 per cent of the sales to South America. Foodstuffs to Europe accounted for one-fifth of the total, compared to South America's 4 per cent. Semi-manufactures to Europe were almost one-fifth of total United States exports to that continent, as compared with one-eighth for South America. Finished goods, however, accounted for one-third of the sales to Europe as against four-fifths for South America. Making the same type of comparison for imports re-emphasizes the position of crude materials and foodstuffs from South America, as contrasted with semi-manufactures and finished goods from Europe.

World War II and Trade with the United States

The loss of European markets, programs of defense, and the involvement of Western Hemisphere nations in World War II have produced abnormal trading relations between Latin America and the United States. Our neighbors to the south looked to the United States to fill the gap left by the disappearance of European markets. It was reasoned that this great industrial nation was capable of supplying most of the important products formerly obtained beyond this hemisphere. In the early years of the war there seemed to be some justification for this point of view. The stimulus imparted to United States industry by a program of defense made it relatively easy for Latin American nations to sell almost all the raw materials of certain types which they were able to produce. True, such materials were primarily those necessary in a military sense and not the staple items normally exported to European markets. Nevertheless, foreign purchasing power, dollar exchange, was being placed in their hands.

Ironically, however, this purchasing power did not result in increased ability to import from the United States. As actual participation in war came closer to the Western Hemisphere, Latin American nations were made to realize that many of the products formerly procured from rich industrial nations were the very same products with which modern war is fought. The United States could not furnish exports desired by

[40] See Appendix, Table 9, p. 403.

Latin Americans without lessening her own strength as a potential partner in war. Export licensing and prohibition of sales to certain purchasers suspected of aiding the Axis were examples of economic warfare in the years immediately preceding Pearl Harbor.

The repercussions of restricted trading became painfully clearer to Latin America with the United States entry into the war. Not only were limitations upon the flow of goods imposed by legal means, but actual warfare began to take its toll in shipping. Modifications in the composition of trade had to be made not only because of loss of ships, but also because available ships had to carry most essential items. Manufactured and semi-manufactured goods, chemicals, iron and steel products, refrigerators, automobiles, agricultural machinery, pharmaceutical products, and many other United States exports had to be rationed as far as international trade was concerned. The great productive power of the United States was no longer available to other nations except as exports contributed to a solidification of military defense against the enemy. The complementary pattern of peacetime trade gave way to the necessities of war.

The economic life of non-industrial nations of Latin America was caught in a vise. Many important export products, such as bananas, coffee, cacao beans, and other foodstuffs, were considered non-essential, even though premiums were still placed on certain raw materials. Changes in the commodity composition of trade had produced surpluses which were not wanted and needs that could not be completely filled.

Perhaps the most striking change in the composition of Latin American exports to the United States after the outbreak of World War II was enlarged shipment of vital raw materials. These heavy exports of strategic, critical, and essential materials had not materialized, however, during late 1939 and in 1940. United States defense production was in its initial stages, and the stock-pile program was just getting under way. In 1941, however, heavy United States purchases of a number of these crucial industrial and military raw materials influenced the entire course of trade with Latin America. Exports of these materials increased both absolutely and relatively, in such quantity as to restore a favorable merchandise balance for Latin America. As the war continued, Latin America became an increasingly dominant source of many materials formerly imported from other areas. The acute shipping shortage limited the absolute volume of vital material exports, but increased the relative

proportion of exports that fell within this category. As shipping space came to be at a premium, such commodities as tin, rubber, mercury, bauxite, wool, hides, and copper were given sharp priority.

This new importance of strategic, critical, and essential exports to the United States has not touched all commodities in the same fashion. Certain great staple products, such as copper, wool, hides, sodium nitrate, and quebracho extract, have continued to come from Latin America in vast quantity and value. Other raw materials, of paramount strategic importance but of lesser tonnage and value, have also been imported almost exclusively from Latin America. Included in this category are antimony, quartz crystals, vanadium, and iodine. In both the aforementioned categories, however, the relative position of Latin America has not been materially altered. The war simply accentuated the dominance of the area and increased, at least for a time, the absolute tonnages and values involved.

In many other instances, however, World War II brought raw materials that had formerly not played a significant role in Latin American exports to the United States into new prominence. Bolivian tin ore, which had formerly been shipped to the United Kingdom because of lack of smelting facilities domestically and in the United States, began to be an important export to this country. Brazilian manganese exports, which had dwindled since the peak years of World War I, suddenly spurted, and the new Cuban manganese industry consolidated its position as a major supplier. Although plantation rubber ventures in Latin America remained long-term projects, wild rubber exports were stepped up appreciably. Throughout Latin America, production and export to the United States of zinc, tungsten, mercury, platinum, industrial diamonds, mercury, chromium, and other products reached new highs. Even such long-quiescent industries as the Andean cinchona or quinine industry were stirred into new, if perhaps temporary, life. The awakening of new or long-dormant export industries was encouraged by special commodity pacts, trade agreement concessions, elimination of duties on some vital materials, and United States financing.

Latin American Industrialization

Analysis of Pan American trade demonstrates the fact that, though economic relations between the United States and the Latin American

region as a whole are largely complementary, a complete description of their economic relationships must deal also with existing competitive elements. The important South American nations referred to above as East Coast temperate zone countries have economies that are directly competitive with the economy of the United States. Other portions of the entire area are competitive in some degree in respect to certain commodities entering international trade. The degree of economic interdependence, as shown by variations in the importance of trade between the United States and the four geographic regions outlined above, becomes progressively less from north to south.

To the extent that competitive elements are intertwined with complementary factors in Pan American economic relationships the situation is not one of natural balance. An area producing basic raw materials and desiring trade with the United States is drawn into complex relationships with a great industrial country whose resources enable her to rank also as a leading raw material producer. Thus the sales of finished products by the industrial country cannot automatically be balanced in payment by the importation of primary products from all portions of the raw-material area. Such a situation may not necessarily be complicated in an environment of economic stability or under conditions of constantly expanding trade in the world at large. The absence of stability and expansion, however, places a serious strain on Latin American nations. They become painfully aware of the competitive elements referred to, as they contemplate filling the gaps in overseas markets by expanding international transactions within a Pan American environment. The situation of intensive specialization of natural resources, resulting in extreme dependence upon the vagaries of world markets for a few export products, throws in relief the gaunt specter of economic disintegration at home. Defense against such disaster is sought in a shift of economic resources toward less dependence upon uncertain world markets.

An economy producing raw materials and searching for diversification to offset what it assumes to be the disadvantages of specialization almost always looks toward industrialization as a solution to its problems. Whether industrialization is a cause or a result of economic nationalism may still be a debatable question, but the fact is that today many nations producing raw materials have reduced their former dependence upon the industrial countries of Europe and North America. This dependence upon overseas sources of supply for manufactured products

was a characteristic feature of international trade prior to 1914 and supported an extensive development of complementary trade. Since the close of the first World War the spread of technological development has become world-wide and Latin American nations have become particularly conscious of their lack of industrial development.

A discussion of Latin American industrialization does not necessarily imply industrialization in the sense in which that term is used in reference to the United States. The development of basic economic resources necessary to support large-scale manufacturing south of the Rio Grande is still too slight for such comparison. Important obstacles stand in the path of industrial development, detailed analysis of which is presented in subsequent chapters. Trends discernible, however, have progressed to a degree sufficient to suggest international ramifications.

To date, Latin American manufacturing has developed chiefly in consumption goods.[41] Cotton cloth, shoes and other types of clothing, furniture, building materials, soap, toilet preparations, cigarettes, cigars, wine, beer, rope and twine, canned meats, canned fruits, paint, matches, paper, tin cans, glassware, and household utensils are examples. The larger establishments in these fields have been financed chiefly by foreign capital, but a marked preference for the establishment of smaller plants with domestic capital has been characteristic of development in recent years. Manufacturing for export has been confined principally to the simple processing of mineral, agricultural, pastoral, and forest products. Meat packing, flour milling, sugar extraction and refining, cigars, crushing of oil-bearing seeds and nuts are outstanding examples. The most significant manufacturing development has taken place in the non-tropical areas, particularly Argentina, Brazil, Chile, and Mexico. Brief examination of developments in these countries should serve to emphasize industrial trends in Latin America.

Argentina is the leading manufacturing country in Latin America, with industrial activity being largely concentrated in the region of Buenos Aires. The economic activity of Argentina was largely agricultural and pastoral until the end of the nineteenth century. In the years immediately preceding World War I, however, the processing of foodstuffs and fabrication of non-durable consumer products developed to a considerable extent. During the period of the War other industries

[41] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, pp. 18–20.

were established, but the most rapid industrial expansion has taken place since 1931.[42] The products of Argentine manufacturing are in great variety and include foodstuffs, meats, cotton, woolen and silk textiles, wine, beer, vegetable oils, tobacco and cigarettes, soap, and shoes. Leather tanning materials, fabricated iron and steel products, ceramic products, glass, cement, furniture, paper, electrical appliances, tires, and rubber products are also produced domestically. The assembling of automobiles is also an important industry, approximately four out of five cars and three out of four trucks sold in Argentina being assembled within the country. Manufacturing in the foodstuffs group is most important, metal manufactures are in second place, and textiles third.[43] Textile production has increased significantly in recent years, 1941 estimates showing that 85 per cent of the woolen cloth, 60 per cent of the linen, and 40 per cent of cotton cloth consumed were domestically produced.[44] Rayon production has also expanded considerably since the establishment of a rayon mill in 1937. In 1941, more than 350,000 persons were producing manufactures for domestic consumption.[45]

Brazilian industry has expanded significantly in the period since 1929, and in the production of many consumer goods it is already practically self-sufficient. The production of cotton textiles is at present the most important manufacturing industry, supplying nearly all the country's requirements and permitting some export, chiefly to Argentina. Although domestic manufacture accounts for only a small part of total consumption, the Brazilian woolen industry has increased in significance in recent years. Domestic wool is used for coarser grades of cloth, and imports of wool and yarn for the finer grades are increasingly displacing imports of woolen cloth.[46] Domestic plants supply a large part of Brazil's requirements for hosiery and most of the demand for men's and women's clothing. Small silk and rayon weaving establishments are numerous, the production of rayon being almost sufficient to meet domestic requirements. Other Brazilian industrial products are containers,

[42] Vernon L. Phelps, *The International Economic Position of Argentina*, pp. 13–17.

[43] George Wythe, "Outlook for Latin American Industry," *Inter American Quarterly*, 2:36, April, 1940.

[44] William Raleigh and Eugene Ysita, *op. cit.*, p. 69.

[45] *Ibid.*

[46] Susan Bull, "South American Textile Industries," *Foreign Commerce Weekly*, 5:9, December 20, 1941.

linen, shoes, hats, tobacco, dairy products, canned fruits and vegetables, paper, furniture, watches, metal art goods, lumber products, cement, pig iron, hemp, jute, and similar fibers. Further evidence of the trend toward industrialization in Brazil is found in the type and amounts of imported manufactured articles. In the period 1936–1938 more than one-half of all imports consisted of manufactured articles, two-fifths of which consisted of machinery, apparatus, utensils, and tools. Not unlike other nations of the world seeking to speed up industrial development, Brazil has made use of import duties and special tariff concessions granted on imported equipment and materials for many industries. Restrictions on operations of foreign-owned companies have been used in order to build up control over manufacturing by Brazilian nationals.

Despite the difficulty of procuring necessary imports of machinery, World War II accentuated Brazilian industrialization in many spheres. Indeed, Brazil even found it possible to achieve the status of an exporter in a few industries. In 1941, for example, exports of manufactures from Brazil increased 184 per cent, largely as a result of the 207 per cent rise of cotton cloth exports and the 450 per cent increase in other cotton products exports.[47] In 1941, cotton cloth and other cotton products accounted for 60 per cent of the total exports of manufactures, the chemical and pharmaceutical industry lagging far behind with 8 per cent. Of a few products, such as pig iron and steel, Brazil continued to export modest quantities despite her predominantly dependent position. In the Brazilian cement industry, Brazil has shifted from importing 98 per cent of domestic consumption in 1926 to imports of but 2 per cent, in 1941. In the latter year, she exported cement, but also imported some cement possessing special qualities.

The number of persons engaged in manufacturing in Chile is second to those engaged in agricultural pursuits.[48] As a result of domestic manufacture, imports of shoes and leather goods, lighting fixtures, textiles, clothing, candy, biscuits, flour, soap, perfume, matches, cigarettes, beer, sugar, enamel, and glassware have been practically eliminated. A marked expansion in cotton, woolen, and rayon textile industries has been accomplished in the past decade, but there are still substantial im-

[47] William Raleigh and Eugene Ysita, *op. cit.*, p. 84.

[48] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 4, p. 7.

ports of cotton yarn and finished cotton goods.[49] Domestic wool is practically sufficient for the production of woolen yarn although a considerable volume of woolen cloth is imported. Most manufacturing in Chile is on a small scale, and costs are relatively high. As in Brazil, the industrialization movement in Chile has been aided by import duties, currency depreciation, and the governmental allocation of exchange only for essentials not manufactured locally.

Mexico, despite the lack of extensive deposits of coal suitable for low-cost extraction, is one of the most important manufacturing nations of Latin America. Production of manufactured goods is largely concentrated in consumer goods, with some production in heavy industries such as structural steel, rails, car wheels, springs, nails, wire, and similar products. A wide variety of manufactured foodstuffs is produced, including sugar, flour, coffee, canned fruits and vegetables, beer, and meat. Cotton and rayon cloth, knitted goods, shoes, leather, tires, and matches are produced in amounts sufficient to fill the home market. Foodstuffs and beverages and basic textiles are the most important manufacturing industries. Cotton used in the manufacturing of textiles is produced domestically, but most of the raw materials for other branches of the textile industry are imported. The movement for a reorientation of the economic and social structure of Mexico has brought about considerable emphasis upon the encouragement of smaller industries and the development of Mexican enterprise. The lack of coal and the high cost of petroleum as a fuel for industry have directed some attention to the development of hydroelectric power, and several industrial establishments already operate with electricity.[50]

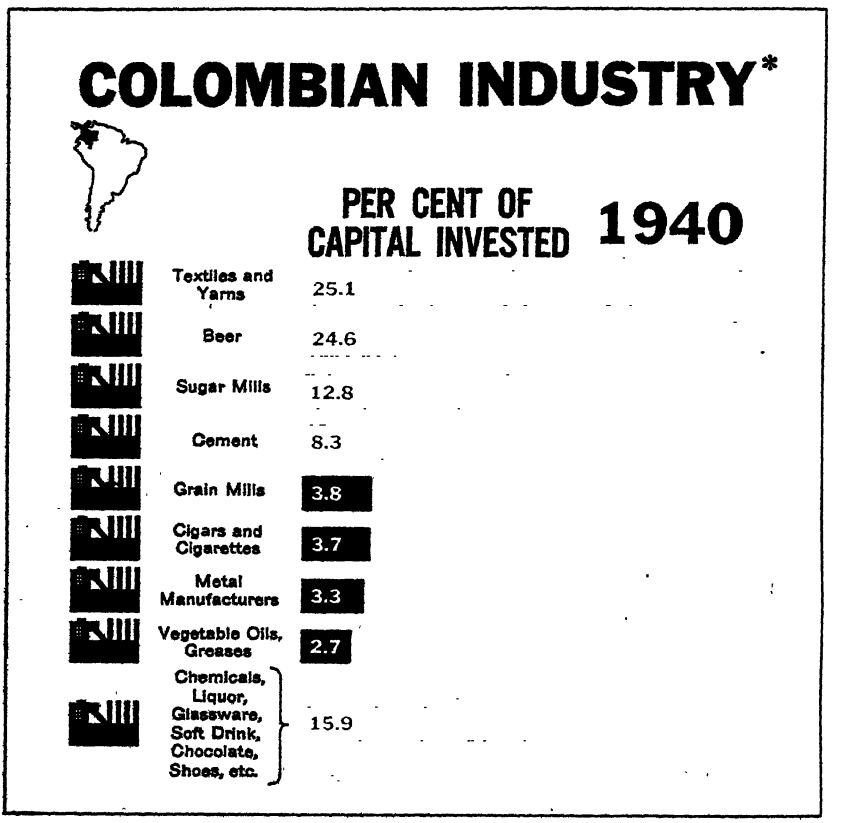
Peru, with her untold mineral wealth, has many metal-working plants, and steps are being taken to establish a steel industry.[51] The manufacture of automobile, bus, and truck bodies is a progressing industry, and electric supplies, artificial marble building tiles, bottles, glassware, plaster, bricks, and porcelain plumbing equipment are other examples of Peruvian manufactures. As in Argentina, Brazil, Chile, and Mexico, foodstuffs are important manufactures for the domestic market. The manufacture of coarser varieties of cotton textiles is a recent and growing

[49] Susan Bull, *loc. cit.*

[50] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 17, p. 14.

[51] "Industrial Peru," *Bulletin of Pan American Union*, 75:644, November, 1941.

industry in Peru, and woolen goods manufacture is well developed. The tanning of hides in tanneries throughout the country supplies shoe manufacturers in amounts which meet practically all domestic requirements. The manufacture of silk goods, although a comparatively new industry,



* Based on data in William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America*, 11:105, April–May–June, 1942.

supplies approximately nine-tenths of the national consumption. Other manufactured products include clothing, buttons, tobacco, furniture of high quality, paper and cardboard, laundry soap, cosmetics, drugs, and paint.

Colombia is another nation which has industrialized rather rapidly, although this industrialization has been confined almost entirely to consumer's goods. In 1940, about half of the capital invested in Colombian

industry was centered in textiles and beer.[52] Industries of secondary stature included sugar mills, cement plants, grain mills, cigar and cigarette factories, metal-working establishments, and other comparable producers. Heavy industry was and remains virtually non-existent in Colombia.

This brief survey of industrialization is sufficient to indicate that the trend toward industrial development is more than an idea in Latin America. As has been noted, manufacturing has been chiefly concerned with consumption goods and, for the most part, is not on an export basis. Manufacturing of the cruder products is not new, and in recent years better grades and wider varieties of articles, chiefly those with a popular demand and a large consumption at home, have been characteristic of the development.[53] The fact that industrialization is not yet on a scale sufficient to offer competition in international export markets is not, however, the most important point in connection with Latin American attempts to industrialize. The significance of the trend, in viewing Latin America's economic relations with the rest of the world, is that the industrial pattern has been set in this portion of the Western Hemisphere. Associated with its future development are ideas of national power and prestige. To the extent that the trend continues, a market for manufactured exports is diminished, and the complementary nature of Latin America's relations with industrial nations of the world is modified.

Conclusion

Such is the overall and general description of Latin American nations as they are related to the rest of the world. As has been pointed out, the region in its normal economic development has been brought into the paths of world economic movements as a "colonial" area, in the sense that it has been regarded as a source of raw-material supplies to serve the needs of nations more advanced in the scale of economic development. Great agricultural, pastoral, mining, and forest resources have been tapped in varying degrees, depending upon location, climate, transportation, capital, and labor supply, resulting in a pattern of rather intensive specialization. This specialization has shaped the various nations into a group of economies which cannot accurately be considered as a homogeneous unit, although they are all engaged in the production of

[52] William Raleigh and Eugene Ysita, *op. cit.*, p. 105.
[53] George Wythe, *Economic Relations with Latin America*, p. 54.

raw materials and foodstuffs and all import a wide variety of manufactured goods and prepared foodstuffs. This common characteristic makes for highly complementary economic relations with those portions of the world whose exports are not of the raw-material type and, by the same token, leads to competitive international economic relations with areas whose natural resources are similar. The United States in her trade with the area as a whole is, at one and the same time, complementary and competitive.

These international relationships have emphasized the extreme dependence of Latin American countries upon economic life in other parts of the world in prosperity or depression and in peace or war. With equal interest other nations have been concerned with the trend of economic events in this portion of the Western Hemisphere. Students of economics see here a laboratory not only for the study of the combination of human and natural resources for internal Latin American economic life, but also as an example of the impact of world-wide developments upon the economic well-being of all nations who participate in international trade. The Latin American nations have not been unaware of the so-called "colonial role" assigned to them by the working of an international system that formerly placed a premium on their natural resources, and they have been desirous, from their earliest periods of independence, to shake off the yoke of economic colonialism. Change in this "colonial role" has been sought by Latin American nations in striving to share in the world-wide movement toward industrialization of areas producing raw materials. Thoughts of national power and prestige dedicated to lessening dependence on the economic fortune of the outside world have set a pattern for this area, the working out of which is still in its earliest stages.

Chapter 3

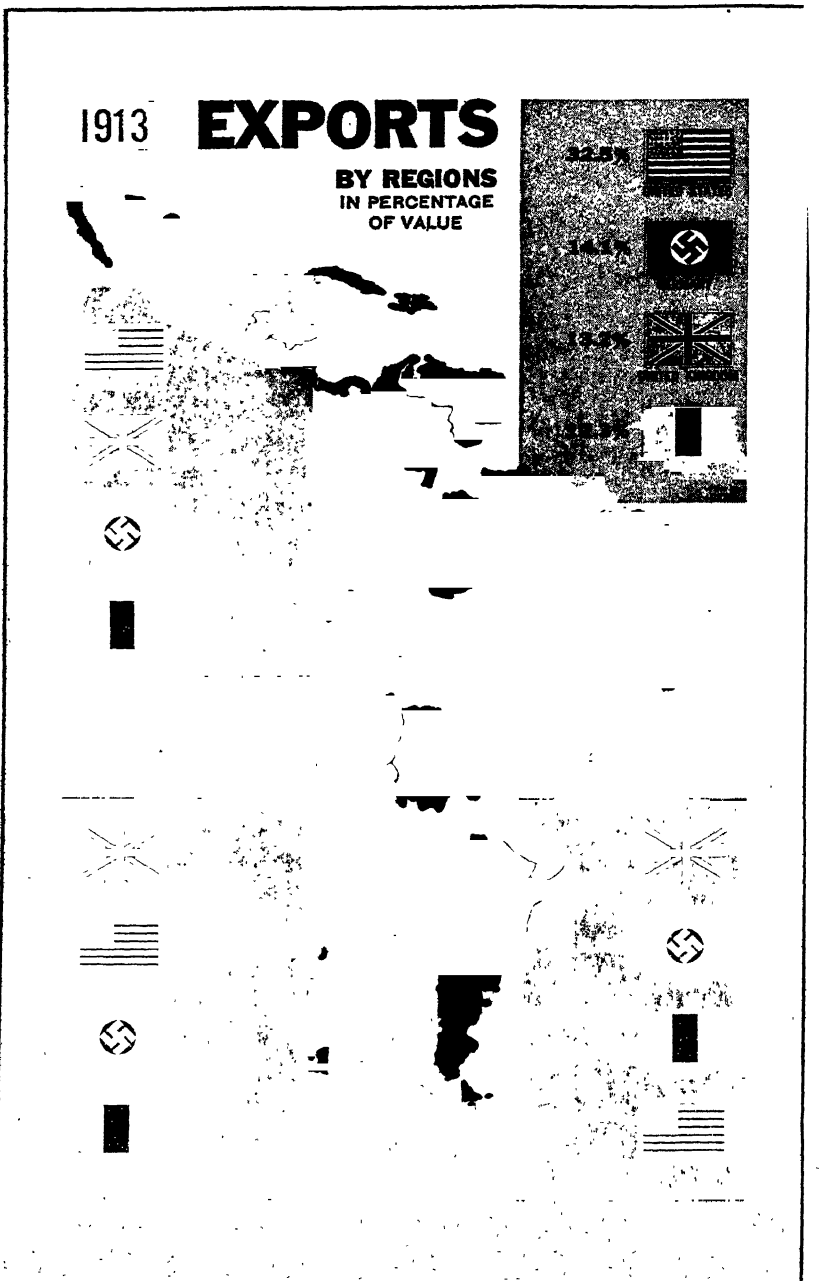
DISTRIBUTION OF PAN AMERICAN TRADE

AS A GREAT colonial area, Latin America early came to be economically dependent upon the mature industrial regions of Europe and North America. During the nineteenth century, these two continents absorbed the bulk of Latin American exports of raw materials and furnished most of the imports of finished and semi-finished goods. During that period, Latin America also emerged as a significant supplier and market of Europe and of the United States. Quite early in the century, however, it became apparent that all the nations of Latin America were not similarly oriented. Certain countries in that portion of the Western Hemisphere south of the Rio Grande were bound to Europe, others were dependent upon the United States, and several came to be divided in their economic allegiance.

Prior to World War I

By 1913, the last year before the war which was to ring down the curtain on much of nineteenth century economic life, the economic orientation of most of the Latin American nations had become very clearly defined. By that time, the twenty Latin American nations had fallen into four groupings or regions.[1] These categories are regions only in the sense that the countries included in each division have had roughly parallel economic allegiance. The sprawling Caribbean region, including Central America, the West Indies, and two South American countries, Colombia and Venezuela, shipped over two-thirds of its exports to the United States, sending but little more than one-fourth of the total to the United Kingdom, Germany, and France, the great trading powers of Europe. Brazil, of sufficient economic significance to merit

[1] See Appendix, Table 10, p. 404.

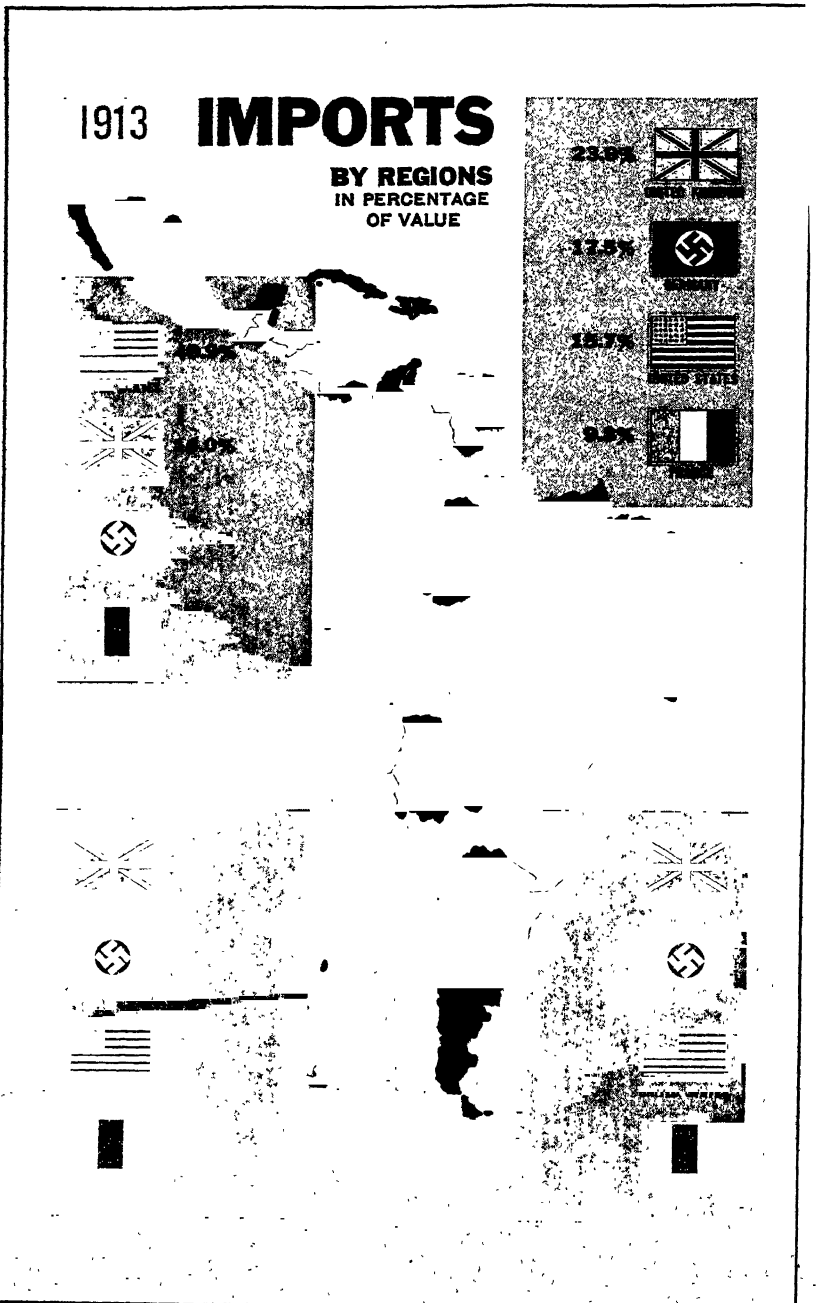

1913
EXPORTS
BY REGIONS
IN PERCENTAGE
OF VALUE

separate analysis, shipped but about one-third of her exports to the United States, as contrasted with the two-fifths of the total destined for the three European powers. The four West Coast nations of South America were also economically dependent upon Europe, rather than upon the United States. These countries shipped but one-fifth of their exports to the United States, over two-fifths to the United Kingdom, and about two-thirds to the three European trading powers combined. Even the West Coast region, however, did not ship so large a proportion of its exports to Europe as did the nations of the East Coast, temperate zone region of South America. These countries, including Argentina, Paraguay, and Uruguay, sent less than one-twentieth of their exports to the United States, shipped nearly one-fourth of the total to the United Kingdom, and almost one-half to the three European traders as a group. The United States absorbed about one-third of the total exports of all Latin America; the United Kingdom, one-fifth; Germany, slightly over one-tenth; and France, well under one-tenth.

The distribution of Latin American imports in 1913 constituted a very similar pattern.[2] The Caribbean region received about half its imports from the United States, absorbing less than one-sixth of the total from any other single power and about one-third from the three principal European traders combined. Brazil received less than one-sixth of her imports from the United States, taking nearly one-fourth of the total from the United Kingdom and slightly over half from the three European sources together. The West Coast nations of South America absorbed about one-fifth of their imports from the United States, nearly three-tenths of the total from the United Kingdom, and nearly three-fifths from the three Old World powers combined. The East Coast, temperate zone region of South America took less than one-sixth of its total imports from the United States. In that same year, this region received three-tenths of the total imports from the United Kingdom, almost one-fifth from Germany, and just less than one-tenth from France, the three European traders in the aggregate furnishing over half the total imports.

Analysis of Latin American foreign trade in 1913, the culmination and the postlude of the nineteenth century period, reveals more than

[2] See Appendix, Table II, p. 405.


1913 IMPORTS
BY REGIONS
IN PERCENTAGE
OF VALUE
23.8%
17.5%
18.7%
9.2%

mere divergencies in economic direction as among broad regions. Extreme differences in orientation also existed even among adjacent nations or countries in the same region. These contrasts were manifested in the trade existing between the United States and the various nations of Latin America. This country received but 9 per cent of Haiti's exports and 89 per cent of Panama's; less than 5 per cent of the total exports from four nations and over 50 per cent of the total shipments from seven other countries. Simultaneously, the United States provided 23 per cent of Colombia's total imports and 73 per cent of Haiti's; 8 per cent of the shipments entering Bolivia and 32 per cent of Ecuador's imports; 6 per cent of the imports entering Paraguay and 15 per cent of Argentina's imports; and less than 10 per cent of the total imports of two nations, contrasted with over 50 per cent of the imports of eight other countries.

Similar sharp divergencies could be noted in the trade existing in 1913 between Latin America and the three great European traders, the United Kingdom, Germany, and France. Latin America was certainly not an economic entity in 1913, at least as far as the direction of foreign trade could be utilized as a criterion. Indeed, economic contrast was almost as striking a feature of the Latin American economic scene as were parallels of economic orientation.

Very little intra-Latin American trade existed in the nineteenth century and in 1913. The Caribbean nations exported almost nineteen-twentieths of their total shipments in 1913 to the four great non-Latin American trading powers. Much of the remaining portion of Caribbean exports was also destined for Europe, Asia, and Africa. Brazil shipped nearly three-fourths of the total 1913 exports to these four overseas nations; the West Coast nations of South America sent almost seven-eighths of their total shipments to them; and to them the East Coast, temperate zone nations of South America shipped half their exported goods. Although a few instances of significant intra-Latin American trade could be found in 1913, they were scattered and far from typical. Nearly all the Latin American countries were closer in an economic sense to Europe and North America than to their immediate neighbors. While the old Spanish ban on intra-Latin American trading became non-operative with independence, tradition, isolation, and production of similar products had the same effect.

Effect of World War I

The outbreak and subsequent course of World War I brought drastic changes in the orientation of Latin America.[8] While the United Kingdom barely held her ground as a trader with Latin America, France lost position, Germany was almost eliminated, and the United States markedly strengthened her economic ties with the lands to the south. The share of the United Kingdom in Latin American exports ranged from 21 per cent in 1913 to 25 per cent in 1918, the proportion varying little from year to year. During the same period, the United Kingdom's share of the Latin American import market dropped from 24 per cent in 1913 to 12 per cent in 1917, the low point, and up again to 17 per cent in 1918. The proportion of Latin American imports provided by the United Kingdom declined each year from 1913 through 1917, this drop being occasioned in large part by Britain's preoccupation with arms production and by a severe shipping shortage.

The share of France in the export trade of Latin America moved from 9 per cent in 1913 to 7 per cent in 1918, reaching a low of 6 per cent in 1914 and a wartime peak of 9 per cent in 1916. During the war years the share of France in Latin America's import trade dropped steadily from a high of 8 per cent in 1913 to a low of 3 per cent in 1917, rising again to 4 per cent in 1918.

Germany, of course, was virtually eliminated as a trader with Latin America. This drastic curtailment of German participation in Latin American commerce was caused originally by the operation of the British blockade, and the severance was completed by the eventual entry of most of the Western Hemisphere nations into the war. In 1913, Germany had absorbed 13 per cent of Latin American exports, but this proportion fell to 9 per cent in 1914, and remained virtually nil during the war years. Concurrently, the German share in the import trade of Latin America fell from 17 per cent in 1913 to 13 per cent in 1914, 2 per cent in 1915, and almost nil thereafter.

[8] The following analysis of Latin American foreign trade during World War I is based in large part upon: Pan American Union, *A Statistical Account of the Foreign Trade of Latin America Before and During the World War*, pp. 3–14; also John Leddy, "The United States Market for Argentine Exports," *Commercial Pan America*, 9:293, November–December, 1940.

The United States soon took advantage of the preoccupation of the United Kingdom and France, the acute shipping shortage, and the almost complete elimination of Germany. Although the United States had taken but 30 per cent of Latin America's exports during 1913, her share in these exports rose to 52 per cent in 1917, this peak percentage dropping to 47 per cent in 1918. Simultaneously, the proportion of Latin American imports furnished by the United States rose from 25 per cent in 1913 to 53 per cent in 1918. The United States registered enormous relative gains as a Latin American trader during the years of World War I. These relative gains were made during a period when, because of larger volume but particularly because of rising prices, the absolute values of Latin American trade were markedly increasing.[4] In 1913, the last pre-war year, the total foreign commerce of the twenty Latin American nations aggregated $2,875,000,000, represented by imports of $1,327,000,000 and exports valued at $1,548,000,000. Corresponding figures for 1918 were total trade, $3,898,000,000; imports, $1,494,000,000; and exports, $2,404,000,000. Over the World War I period, total trade of the Latin American countries rose 36 per cent, imports, 13 per cent, and exports, 55 per cent. Hence, the United States claimed a larger relative share of an increased absolute total trade.

When the war was over, the great European traders sought with determination approaching desperation to recover their Latin American markets and raw material sources. They succeeded partially in this attempt to regain lost ground, but the shifts occasioned by the wartime distortion of trade did not immediately disappear. Pre-war contacts and trading relationships had been shattered or weakened, and the United States continued to cling to the remnants of her wartime supremacy. Even the high-tariff Acts of 1922 and 1930 minimized but did not completely destroy the newly acquired position of the United States in Latin American commerce. In 1929, the United States received 34 per cent of Latin American exports, which, although it was far below her 1918 share of 47 per cent, was also materially above the 31 per cent of 1913.[5] In that same year, this country furnished 39 per cent of Latin

[4] Pan American Union, *Statistical Account of the Foreign Trade of Latin America Before and During the World War*, p. 2.

[5] 1929 statistics are taken from U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 41.

American imports, much less than the 53 per cent of 1918 but appreciably greater than the 25 per cent of 1913.

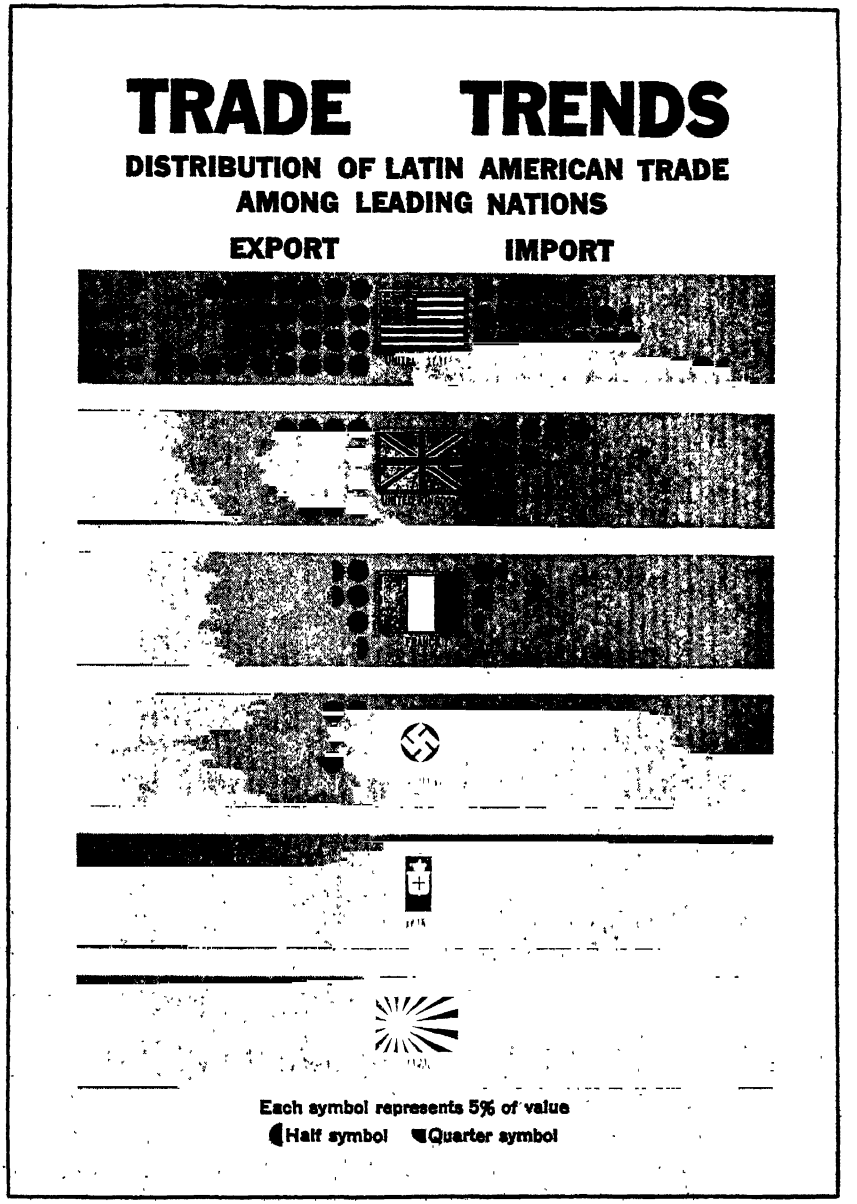
Effect of the World Economic Depression

The depression years after 1929 witnessed the relative decline of the United States and the United Kingdom as traders with Latin America. Germany, who utilized barter and other bilateral methods to increase both the volume and relative significance of her Latin American trade, encroached upon markets formerly dominated by the Anglo-Saxon powers.[6] In 1932, Germany's share in the Latin American export trade was but 7 per cent, while she provided merely 10 per cent of Latin American imports. In 1938, the last full year before the outbreak of World War II, Germany absorbed 10 per cent of Latin American exports and provided 17 per cent of Latin American imports.

This same eventful period of but six years witnessed a sharp change in the relative positions of all the major trading nations.[7] The United States barely maintained her share of approximately one-third of Latin American foreign trade. Her share of Latin American exports declined from 32 to 31 per cent, and her portion of Latin American imports rose from 32 to 35 per cent. The United Kingdom lost ground, despite her numerous commercial and exchange treaties with the area. Her share of Latin American exports fell from 19 to 16 per cent, and her shipments, from 16 to 12 per cent of the Latin American total. France likewise lost status as a trader with Latin American nations, since she now took 4 rather than 7 per cent of Latin American exports and provided 3 rather than 5 per cent of total imports. Italy's trading position deteriorated despite her resort to barter and preferential agreements, since her share of Latin American exports fell from 3 to 1.5 per cent and her shipments to the area dropped from 5.4 to 3 per cent. Japan, long an insignificant factor in Latin American trade, markedly improved her position in many nations. Her slim share of Latin American exports jumped from 0.3 to 1.3 per cent, and her shipments increased from 0.1 to 2.7 per cent of the Latin American aggregate. Thus,

[6] Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:375, September–October, 1941.

[7] See Appendix, Tables 14, 15, p. 408.


TRADE TRENDS
DISTRIBUTION OF LATIN AMERICAN TRADE
AMONG LEADING NATIONS
EXPORT
IMPORT
Each symbol represents 5% of value
Half symbol
Quarter symbol

whereas Germany registered the sharpest absolute gain, Japan made the most spectacular relative increase.

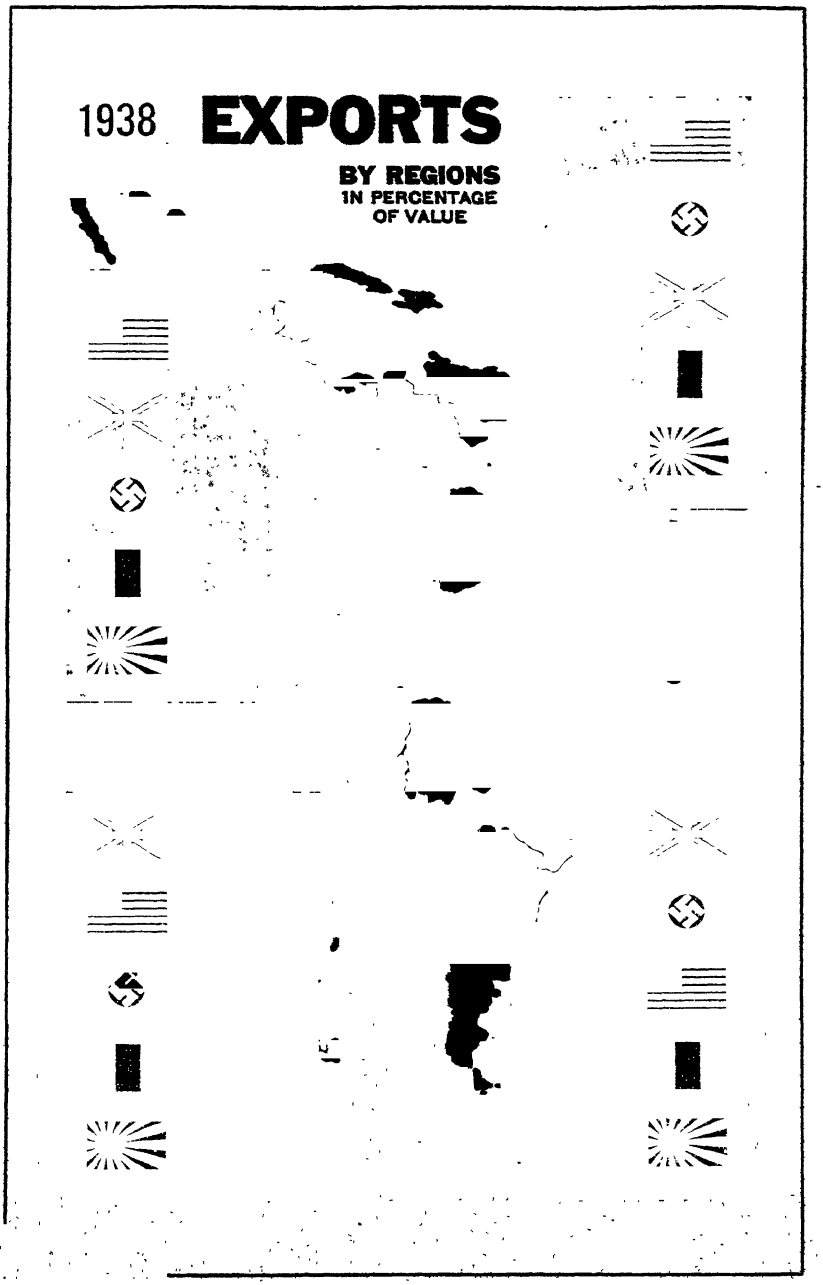
Distribution of Trade in 1938

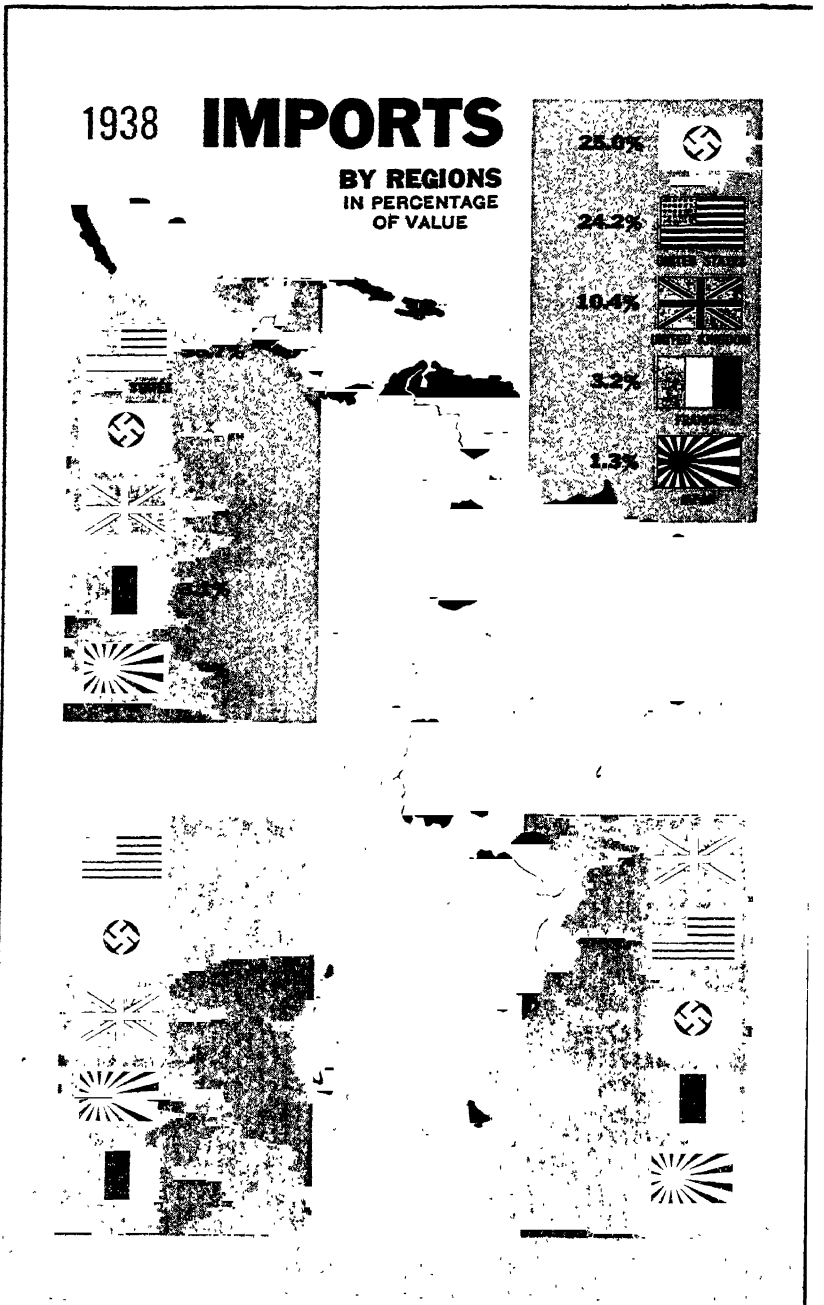
The distribution of Latin American exports and imports in 1938, just before the beginning of World War II, is significant.[8] This trade falls in the same general pattern as in 1913. Four so-called regions—the Caribbean countries, Brazil, the West Coast nations of South America, and the East Coast, temperate zone countries of that continent—can be distinguished.

The United States remained a relatively more important market for Caribbean exports than for the shipments of other regions south of the Rio Grande. The Caribbean nations sent nearly half their shipments to the United States and less than one-sixth to the other three powers combined. Brazil shipped one-third of her exports to the United States and about one-third to the trio of European traders. The West Coast countries of South America sent less than one-fifth of their exports to the United States, whereas they sent one-quarter of the total to the United Kingdom alone and nearly two-fifths to the three trading powers of Europe. The nations of the East Coast, temperate zone region of South America, shipped less than one-tenth of their total exports to the United States. They sold more than three-tenths of the total to the United Kingdom and about one-half of total exports to the three Old World markets. In 1938, the United States received three-tenths, or 31 per cent, of Latin American exports, which reveals that the last vestiges of the World War I shift toward the United States had now almost completely disappeared. In that same year, the three great European traders accounted for over one-third, or 36 per cent, of Latin American exports.

In 1938, the United States continued to be a dominant source of Caribbean imports, but was less significant as an exporter to the remainder of Latin America. The United States provided three-fifths of the imports received by nations in the Caribbean area in 1938, as contrasted with the one-fifth provided by the three leading European sources. Brazil, however, imported but one-quarter of her imports from the United States, taking one-fourth from Germany and nearly three-

[8] See Appendix, Tables 12, 13, pp. 406–407.


1938
EXPORTS
BY REGIONS
IN PERCENTAGE
OF VALUE


1938 IMPORTS
BY REGIONS
IN PERCENTAGE
OF VALUE
25.0%
24.2%
10.4%
3.2%
1.3%

fifths from the three European powers. The West Coast nations of Latin America imported nearly three-tenths of their total imports from the United States, but they also received almost one-fourth of their total from Germany and over one-third from the three European traders. The East Coast, temperate zone nations of South America, imported less than one-fifth of their goods from the United States, receiving about one-third from the three European countries. In 1938, the United States provided slightly over one-third, or 34 per cent, of Latin American imports. Also in 1938, the three European sources furnished slightly over three-tenths, or 31 per cent, of the total Latin American imports.

Significantly, the approximate lines of demarcation were much the same in 1938 as in 1913. The Caribbean countries were strongly oriented toward the United States; Brazil and the West Coast nations of South America were about equally bound to the United States and Europe; and Bolivia, as well as the three East Coast, temperate zone countries of South America, were definitely drawn by the economic magnetism of the Old World.

Shifts in the orientation of Latin American regions and nations did occur during the era of 1913 to 1938. Examination of the relative position of the United States in Latin American trade is illustrative of certain of these changes. The United States received about the same proportion of the exports of Brazil and the West Coast region of South America in 1938 as in 1913. She became, however, a markedly less significant market for the nations of the Caribbean. Contrariwise, the United States almost doubled her formerly trivial share of the market for the goods of the East Coast, temperate zone nations of South America. On the import side of the ledger, the United States gained ground in nearly every section of Latin America during the 1913–1938 period. These relative gains were, however, of quite different magnitude in the various regions and nations. The most significant of these gains were registered in the Caribbean region, Brazil, and the West Coast region of South America.

Latin American trade in 1938 featured as sharp divergencies in orientation among individual nations as in 1913. These differences, significantly, still existed among countries in the same economic groups or regions. The United States, for example, received 13 per cent of Venezuela's exports and 89 per cent of Panama's; 5 per cent of Bolivia's

shipments and 38 per cent of Ecuador's; 4 per cent of Uruguay's exportable commodities and 12 per cent of Paraguay's.

The trade existing in 1938 between Latin America and the three great European traders reflects the same sharp lines of demarcation. The United Kingdom absorbed but 0.4 per cent of Guatemala's exports and 42 per cent of the Dominican Republic's; 5 per cent of Ecuador's and 63 per cent of Bolivia's; 13 per cent of Paraguay's shipments and 33 per cent of Argentina's. Germany took 2 per cent of Haiti's exports and 19 per cent of Costa Rica's; 1 per cent of Bolivia's shipments and 18 per cent of Ecuador's; 12 per cent of Argentina's exported goods and 24 per cent of Uruguay's. The share of France in the export trade of the various regions of Latin America also varied rather notably from country to country.

Similar, though not as spectacular, discrepancies could be noted in the 1938 Latin American import statistics. In 1938, as in 1913, any generalizations concerning the orientation of Latin American trade had to remain highly arbitrary and unsatisfactory. The foregoing paragraphs even indicate that attempts to subdivide Latin America into regions or groupings must be rather crude.

Orientation of Southeastern South America

Only four nations in Latin America are normally under the virtual trade domination of Europe. These four countries are Bolivia, Paraguay, Uruguay, and Argentina, and their economic orientation must be understood if there is to be any foundation for a realistic analysis of Pan American economics. This peace-time economic allegiance owed to Europe has also assumed a significant role in shaping social, cultural, economic, and political structures existing within these countries. The orientation of the foreign trade of these republics has also influenced their attitude toward Western Hemisphere cooperation and toward World War II.

The relative importance of the four great trading powers, one North American and three European, has been sketched above. Perhaps a continent-by-continent analysis, however, would be of supplementary value.

Bolivia, in 1938 as in most years, sent but one-tenth of her exports to other nations in the Western Hemisphere, shipping nine-tenths of the

total to Europe.[9] She did receive, however, over three-fifths of her imports from other nations in this hemisphere, notably the United States, Peru, and Argentina. One-third of her total imports originated in Europe, only a trivial portion coming from Asia, especially Japan.

Paraguay shipped over half of her 1938 exports to other hemispheric nations, the bulk of these shipments being shipped to Argentina.[10] Almost half of the exports in that year were destined for Europe, with but insignificant amounts going to other continents. Paraguay imported slightly over half of her imports from nations of this hemisphere, especially from Argentina and the United States. One-third of her total imports originated in Europe, with about one-sixth coming from Asia, notably Japan.

Uruguay, in 1938, shipped over one-fourth of her exports to other countries of the Western Hemisphere, primarily the United States and Argentina.[11] She also sent, however, nearly three-fifths of the total to Europe and about one-tenth to Asia, predominately Japan. Uruguay imported nearly half of her imports from within this hemisphere, especially from the United States, Netherlands West Indies, Argentina, and Brazil. Even this significant share was slightly exceeded by the proportion of her imports which came from Europe.

Argentina sent but one-quarter of her 1938 exports to other nations of this hemisphere, especially the United States, Brazil, and Canada, while she shipped three-fourths of the total to the continent of Europe.[12] Also, in 1938, she absorbed three-tenths of her imports from the United States and other Western Hemisphere countries. She also took six-tenths of the total imports from Europe, as well as the remaining one-tenth from Asia. It is significant that Argentina did not send so large a proportion of her exports to the United States in 1939 as she did in 1929.[13] The drop in the share of the United States in Argentina's import trade over the 1929–1939 era was even more marked. The outbreak and eventual course of World War II, of course, drastically altered this situation.

[9] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 2, p. 21.

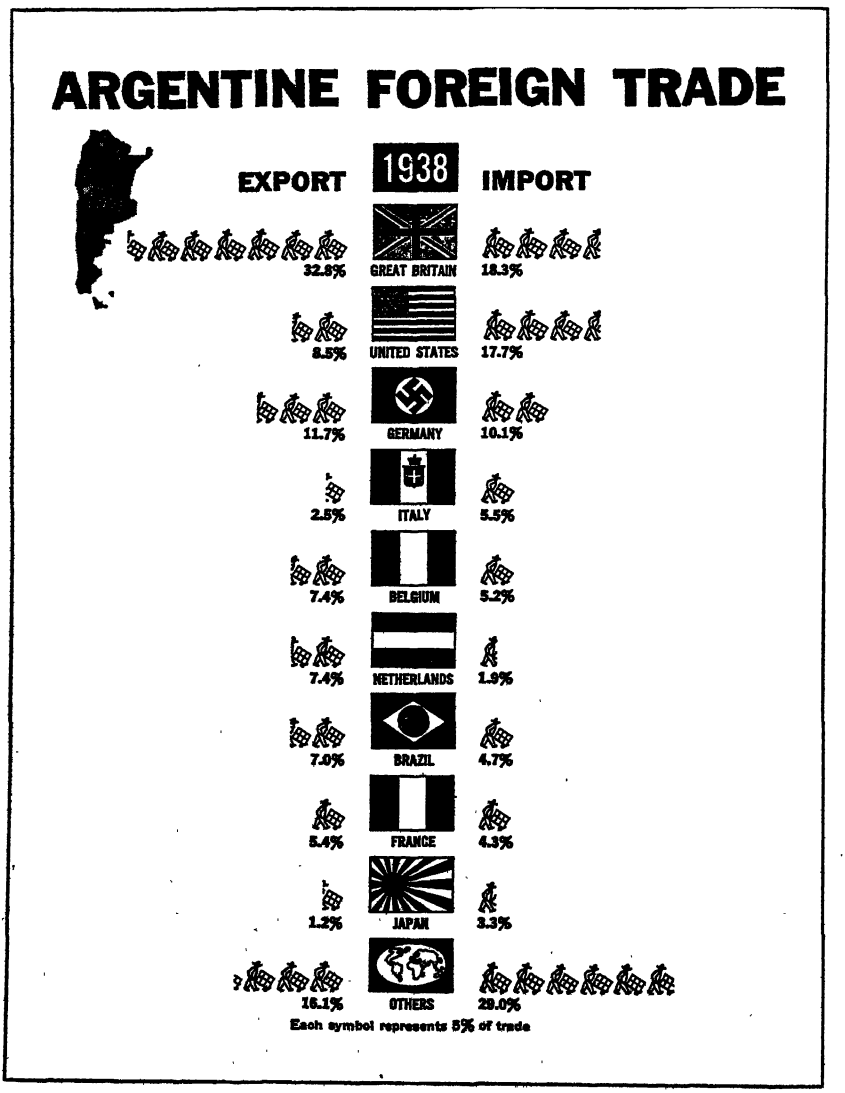
[10] *Ibid.*, Section 7, p. 28.

[11] *Ibid.*, Section 9, p. 33.

[12] *Ibid.*, Section 1, p. 44.

[13] *Ibid.*, p. 43. For a more detailed analysis of Argentine–United States trade statistics, covering the 1913–1939 period, see John Leddy, *op. cit.*, pp. 292–327.

The underlying factors which tend to bind Argentina to Europe are relatively few and simple. They are illustrative of the elements which



determine the orientation of all Latin American nations, whether drawn toward Europe or North America. These are also the specific factors which strongly affect the channeling of the foreign trade of such nations as Bolivia, Paraguay, and Uruguay toward the Old World.

The basic considerations in the case of Argentina are largely two: the distances involved and the composition of her export trade. Argentina is about as close to Africa and Europe as she is to the United States, which tends to minimize the transportation differential which is so significant in drawing the Caribbean nations toward the United States.

The composition of Argentina's export trade, however, constitutes the primary basis of her economic allegiance to Europe.[14] Argentina's exports are largely agricultural staples and raw materials, such as corn, wheat, flaxseed, beef, and wool. Most of these products enter into United States or world markets in direct competition with our domestic producers. Even for corn and canned beef, where the competition between Argentine and United States producers is indirect, Europe remains Argentina's prime market. In the two-year period, 1937–1938, Argentina sent but 11 per cent of her thirteen principal exports to the United States.[15] This country took 9 per cent of Argentine corn exports, 0.4 per cent of wheat shipments, and none of the exports of chilled beef, frozen mutton, frozen beef, oats, and barley. Corn is seldom exported to the United States, and the high average figure is due to large exports in 1937 because of drought conditions in the United States. Although the United States did absorb significant quantities of such Argentine exports as flaxseed, wool, bovine hides, canned meats, quebracho extract, and sheep skins, in none of these instances did the United States receive half the total exports. Although this country took a larger proportion of Argentine flaxseed than of any of the other thirteen leading exports, the United States received but 33 per cent of the exports of even this product.

Intra-Latin American Trade

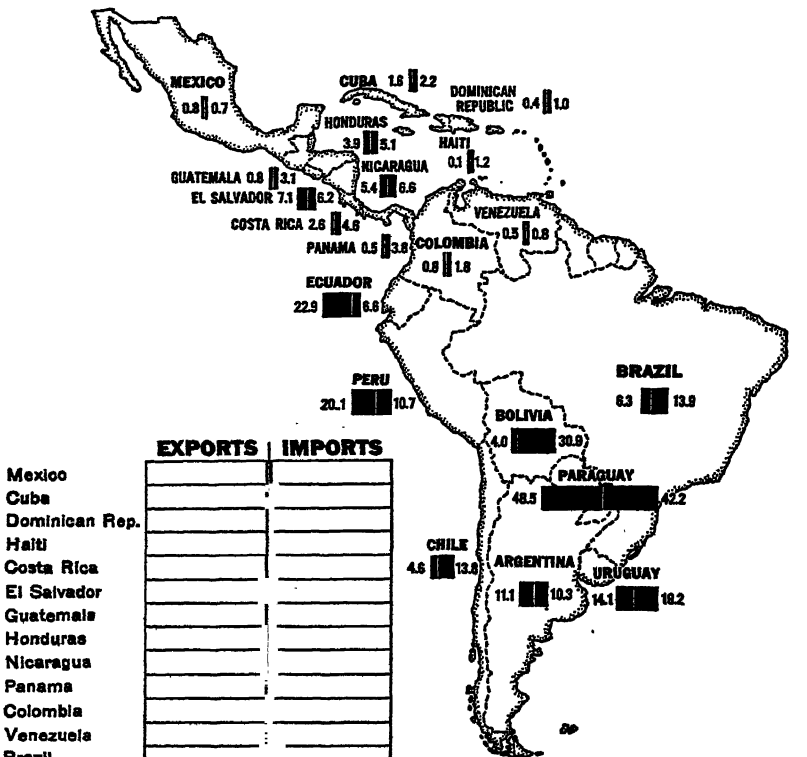
Trade among the various Latin American nations remained relatively slight in 1938, as was the case in 1913. Improved overland transport and a small-scale industrialization in some countries, however, had increased the significance of intra-Latin American trade during that quarter century. Only three Latin American nations consistently find major

[14] For a detailed analysis of the direction and composition of Argentine foreign trade, see Vernon Phelps, *International Economic Position of Argentina*, pp. 133–166.

[15] John Leddy, *op. cit.*, p. 295.

INTRA-LATIN AMERICAN TRADE

EXPORTS AND IMPORTS IN 1938



Black areas show percentages of Intra-L. A. trade in the total exports, imports of individual countries

export markets south of the Rio Grande.[16] These countries are Ecuador, Paraguay, and Peru, with Argentina, Brazil, and Uruguay possessing significant but less important markets in this area. The bulk of the intra-Latin American exports seem to be produced in South America, since most Caribbean shipments are destined for the United States or other overseas markets. Most trade statistics are slightly misleading in this regard, however, as they do not include the West Indies possessions and other colonial outposts in Latin America. Venezuela, for example, ships huge quantities of crude oil to the near-by Netherlands West Indies, there to be refined and shipped to foreign markets. Over the 1929–1939 period, Venezuela shipped one-half to three-fourths of her exports, in terms of value, to these islands each year.[17] The ultimate consumers, of course, are located abroad.

Intra-Latin American import trade is similarly dominated by South America. The six nations customarily importing appreciable quantities of goods from countries south of the Rio Grande are located in South America. These are Argentina, Bolivia, Brazil, Chile, Paraguay, and Uruguay. The sole Latin American nation whose foreign trade seems to be drawn predominantly toward another Latin American country is Paraguay, which is oriented toward Argentina and utilizes the Argentine peso as legal tender. Again, however, it must be noted that the West Indies receive huge shipments from South and Central America, the goods then being trans-shipped.

Much of this intra-Latin American trade is bilateral, but there are also many multilateral currents of commerce.[18] Uruguay and Paraguay, for instance, sell appreciable quantities to Argentina and also buy much from her; yet, even here, Paraguay sells a larger proportion of her exports to Argentina than she buys from that country. Uruguay's trade pattern is similar. Brazil, Chile, Bolivia, and Peru export relatively little to Argentina but normally buy 5 to 15 per cent of their imports from that country. As will be observed subsequently, the nature of

[16] See Appendix, Table 16, p. 409.

[17] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, p. 32.

[18] The following analysis of trade currents in Latin America is from Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367:110–111, February, 1941; supplemented by Julian Zier, "Commercial Interdependence of the Americas," *Commercial Pan America*, 10:351–369, August, 1941.

this trade has conditioned the tariff policy of the region and has furnished impetus for a customs union.

In several cases, intra-Latin American trade may involve three, four, or five countries in inter-related trade currents. The United States imports more from Brazil than she exports; Brazil also has an import balance with Argentina; and when Argentina occasionally imports more from the United States than she exports, she utilizes the excess exchange from Brazil to cover the resultant deficit. There are a number of such examples of involved multilateral trade, although the tendency toward bilateralism in commercial policy has acted to stifle such trade movements.

Position of the United States

No mention has been made in the foregoing analysis of the relative significance of the nations of Latin America as a source of United States imports and an outlet for United States exports. Latin America has long been a more important source of our imports than a market for our exports, despite the fact that the United States has been significant in Latin American trade largely as an exporter. The United States imported annually from Latin America during the 1929–1939 period between one-fourth and one-fifth of her total imports from all sources.[19] During the same decade, this country exported annually to Latin America one-eighth to nearly one-fifth of her total exports.

Significantly, Latin America did not register any very appreciable gains either as a source of imports or as a market for exports over this ten-year period. Since the outbreak of World War II, of course, the curtailment of United States foreign commerce with other continents has allowed Latin America to assume a somewhat more significant role. It should be noted that, although the aggregate value of trade between the United States and Latin America has fluctuated greatly, this trade has constituted a fairly constant portion of total peacetime United States foreign commerce.

Imports from Latin America in recent years have amounted to more than one-fifth of total United States imports, and two countries have been the normal source of about 5 per cent each of the total.[20] In 1939,

[19] See Appendix, Tables 17, 18, 19, pp. 410–412.

[20] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, pp. 65–69. Much of the subsequent analysis of United States imports from Latin America is taken from these pages.

LATIN AMERICA'S SHARE IN U.S. TRADE 1929-1939



UNITED STATES IMPORTS (IN PERCENTAGE OF VALUE)

1929	23.1
1931	22.9
1933	21.8
1935	22.5
1937	21.8
1939	22.4

UNITED STATES EXPORTS (IN PERCENTAGE OF VALUE)

1929	17.4
1931	12.9
1933	12.9
1935	15.1
1937	17.3
1939	17.9

Black blocks show Latin America's percentages.
Gray blocks show percentages of rest of world.

for instance, seven Latin American countries accounted for 19 per cent of United States imports. Of this 19 per cent, Brazil and Cuba each provided nearly 5 per cent, and Argentina, 3 per cent. Mexico, Colombia, Chile, and Venezuela ranked next in order, each providing 1 to 3 per cent of total United States imports. Combined imports from the other thirteen Latin American nations represented but 3 per cent of United States imports in 1939.

Between 1929 and 1939, the relative positions of the principal Latin American nations in United States import trade changed notably. Of the seven leading countries mentioned in the previous paragraph, only Argentina maintained the same relative importance in 1939 as in 1929. The share furnished by Chile dwindled very sharply indeed during that dismal decade. Imports from most of the other thirteen Latin American countries, however, have risen relative to total United States imports. These shifts have been caused in part by drastic changes in the world price of a number of pivotal Latin American raw materials entering export trade.[21] Other contributing factors have been changes in United States demand, declining Latin American production in a few spheres, and changes in the United States tariff structure.

The seven countries which have been the leading Latin American sources of United States imports are also the leading Latin American markets, though not in the same order.[22] In 1939, Mexico and Cuba, fourth and second, respectively, as Latin American sources, ranked first in Latin America as markets for the United States. Each of these nations absorbed less than 3 per cent of total United States exports. Brazil, first as a source of United States imports, received a slightly smaller portion of this country's exports and ranked third in Latin America as a market for our goods. Other ranking Latin American markets for United States exports were Argentina, Venezuela, Colombia, and Chile. The seven nations just mentioned accounted for 14 per cent of all United States exports in 1939. The combined value of United States exports to the other thirteen Latin American nations in that year aggregated less than 4 per cent of the total.

[21] For country-by-country analysis of these shifts in Latin American exports to the United States, see *ibid.*, Part II, Sections 1–20.

[22] Much of the following study of United States exports to Latin America is taken from *ibid.*, Part I, pp. 71–72.

As in United States imports, certain shifts occurred between 1929 and 1939 in the relative significance of individual Latin American nations as export markets. In this decade, Argentina and Chile lost ground relatively, whereas Venezuela and Colombia gained new status. Among the underlying factors operating to bring about these shifts were changes in trade restrictions, exchange depreciation and control, and differing degrees of vulnerability to the great depression of the 1930's.[23]

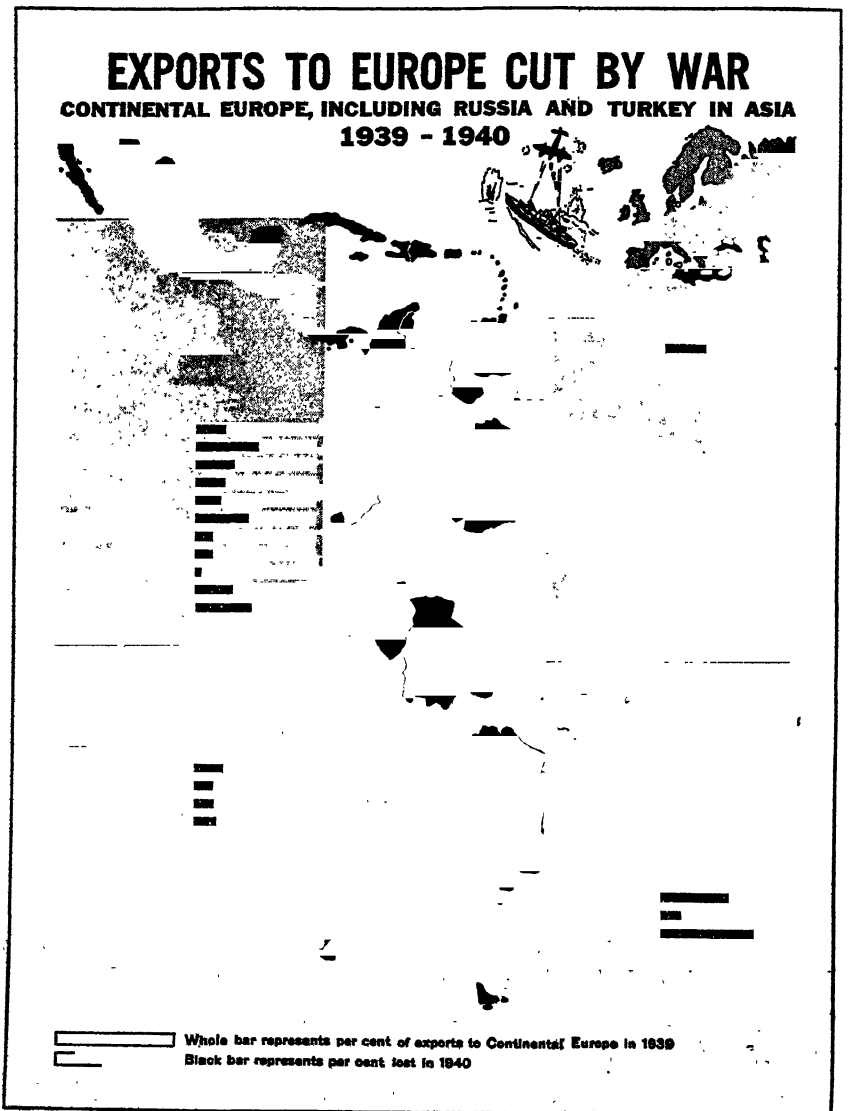
Impact of World War II

World War II is apparently effectuating changes in the foreign trade of Latin America similar to those which followed in the wake of the last war. The United Kingdom, France, and even Germany were not so important in Latin American trade in 1939 as in 1913, and the relative position of the United States was somewhat stronger. Blockades, submarine warfare, and the spread of conquest, however, came so much earlier in World War II than in the preceding war that the lesser extent of dependence upon Europe was partially counteracted. The United States has now emerged as the dominant Latin American trader, as the other great powers have become preoccupied with their war efforts or have been cut off from this hemisphere. The German-controlled market was eliminated almost immediately, and the extension of the war area in the spring of 1940, together with the downfall of France and the entry of Italy into the conflict, drastically curtailed trade with the remainder of Europe. Latin American nations then had to find new buyers for about $500,000,000 worth of raw materials, or nearly three-tenths of the total annual exports.[24] Concurrently, the curbing of European sources and the imposition of the British blockade led to drastic readjustments in the distribution of Latin American import trade. Even the United Kingdom, while remaining a major supplier, came to be preoccupied with wartime production and was plagued by an acute shipping shortage.

Although Latin American trade did not assume a notably more significant role in total United States foreign trade during 1940 than it did

[23] For nation-by-nation analysis of these shifts in United States exports to Latin America, see *ibid.*, Part II, Sections 1–20.

[24] Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:376, September–October, 1941.


EXPORTS TO EUROPE CUT BY WAR
CONTINENTAL EUROPE, INCLUDING RUSSIA AND TURKEY IN ASIA
1939 - 1940
Whole bar represents per cent of exports to Continental Europe in 1939
Black bar represents per cent lost in 1940

in 1939, marked gains were registered in the absolute value of this trade. In 1940, the Latin American countries accounted for 20 per cent of aggregate United States trade, 24 per cent of our total imports, and 17 per cent of our total exports.[25] These percentages contrast with the 20 per cent of total trade, 22 per cent of imports, and 17 per cent of exports claimed by Latin America during 1939.

The value of United States–Latin American trade during 1940 amounted to $1,302,134,000, or $237,614,000 more than the 1939 total. United States imports from these nations in 1940 aggregated $619,465,000, which was an increase of $101,909,000, or 20 per cent, over 1939. United States sales to the countries south of the Rio Grande reached $682,669,000 in 1940, a gain of $135,705,000, or 24 per cent, over the preceding year.

Only four countries exported fewer goods to the United States in 1940 than in 1939, these nations and their decreases being Nicaragua, 0.9 per cent; the Dominican Republic, 8 per cent; Brazil, 2 per cent; and Colombia, 3 per cent. Increased exports to the United States were the rule, however, these increases ranging from 0.5 per cent for Cuba to 160 per cent for Bolivia. Latin American imports from the United States declined 10 per cent in Haiti, but increased shipments varied from 0.8 per cent for Colombia to 118 per cent for Bolivia.

Significantly, exports to the United States increased from three of the four nations which are normally oriented toward Europe. Even Paraguay, the fourth nation in this group, registered a 5 per cent gain. All four of these nations imported measurably increased quantities in 1940, these increases varying from 51 per cent for Argentina to 118 per cent for Uruguay. Apparently, wartime changes in orientation of trade have been greatest in those nations which were most drastically affected by the curtailment of European markets. These shifts are not entirely mere diversions, however, for in every case the absolute volume as well as the value of total foreign trade registered notable increases.

When World War II broke out, British traders and business men looked upon the conflict as an opportunity to recapture that portion of the Latin American market lost during the 1930's to Germany. With the latter nation virtually cut off from Latin America by the British

[25] Most of the following statistical analysis of United States–Latin American trade in 1939 and 1940 is taken from Pan American Union, *Foreign Trade Series 181*, pp. 1–4.

blockade, the foundation for increased commerce between the United Kingdom and Latin America seemed well laid. The ensuing British trade drive was focused upon the southern quarter of the hemisphere, where her main commercial and investment interests have long been concentrated. Since Britain was able to declare that she could "deliver the goods," British traders made some slight headway. The wartime needs for Latin American raw materials, especially foodstuffs, impelled this initial progress.

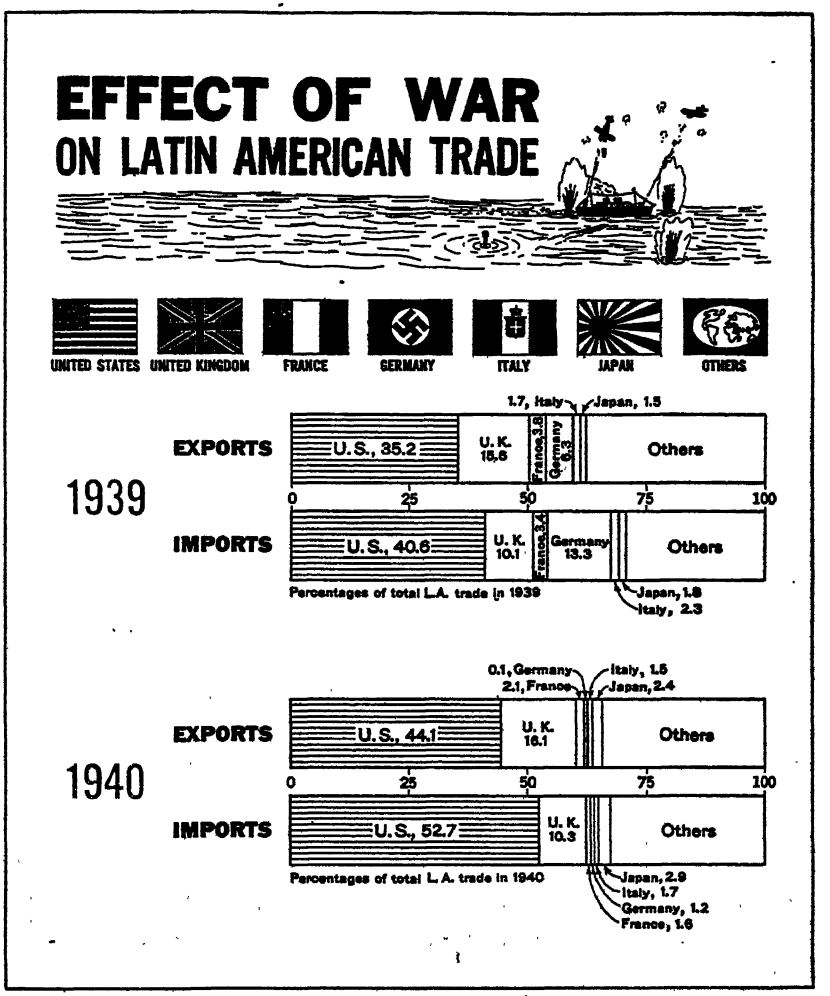
The accentuation of the tempo of the war, following close upon the fall of France, checked this growth in trade between the United Kingdom and Latin America. Acute shipping shortages appeared as the Battle of the Atlantic grew more violent, and these shortages made curtailment of certain types of trade imperative. Dwindling foreign exchange resources had to be carefully husbanded, despite the Lend-Lease Act, and purchases were necessarily concentrated in the United States and Canada. The United Kingdom has attempted to prevent drastic decreases in her trade with Latin America, and has utilized special promotion devices, credit guarantees to British exporters, and clearing agreements with a number of Latin American nations to that end.

Despite these efforts, it is unlikely that wartime British trade with Latin America can even be maintained at present levels. Strict import control in the United Kingdom, the intensified shipping shortage, and limited British foreign exchange resources make it improbable that Latin American exports to Britain will increase in total, although the nature of these exports may well experience a marked change.[26] Imports from the United Kingdom are also likely to be somewhat curbed by limited Latin American exchange, shipping shortages, and the conversion of British industry to wartime production.

A statistical analysis of trade in 1939 and 1940 reveals clearly the impact of World War II upon the scope and direction of Latin American export and import trade.[27] Since exports have constituted such an important element in the Latin American economy, a study of shipments is enlightening. The United States increased her imports from Latin America, both in absolute value and proportion to total Latin American exports. Whereas this country absorbed but 35 per cent of exports from

[26] Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:377, September–October, 1941.

south of the Rio Grande in 1939, she took 44 per cent in 1940. Th United Kingdom barely held her own, the absolute value of her im ports from Latin America declining somewhat and her relative share o



exports increasing slightly but still hovering around 16 per cent. France's imports from Latin America were cut about in half in terms of absolute value, and her share of Latin American exports declined from 4 to 2 per cent. Germany's imports declined until they reached negligible proportions, her relative share of Latin American shipments falling

from 6.3 to 0.1 per cent. Italy almost held her own in terms of values and percentage, the percentage later declining slightly from 1.7 to 1.5. Japan gained ground in that year, both absolutely and relatively, her share of Latin American exports moving from 1.5 to 2.4 per cent.

Latin American import figures reveal a similar spurt on the part of the United States, a small-scale rise on the part of Japan, a struggle by the United Kingdom to hold even, and cataclysmic declines of France, Germany, and Italy as import sources. Only the United States and Japan registered appreciable gains in both absolute and relative terms. Changes in relative shares of Latin American import markets, in terms of percentages, as between 1939 and 1940, were: United States, 41 to 53 per cent; United Kingdom, 10.1 to 10.3 per cent; France, 3.4 to 1.6 per cent; Germany, 13 to 1.2 per cent; Italy, 2.3 to 1.7 per cent; and Japan, 1.8 to 2.9 per cent.

A more detailed analysis of the foreign commerce of individual Latin American nations reveals with even greater clarity the impact of World War II. Mexico, in 1939, shipped 74 per cent of her exports to the United States, and this percentage rose to 90 per cent of the total in 1940.[28] The United Kingdom, normally the second ranking market for Mexican goods, took but 1 per cent of the 1940 total, as contrasted with 6 per cent during 1939. Mexico also took 66 per cent of her imports from the United States in 1939 and 79 per cent in 1940.[29] Germany, normally second ranking source of Mexican imports, provided but 1 per cent in 1940, contrasted to 13 per cent in 1939.

Brazil, previously divided in her economic allegiance between Europe and North America, increased her exports to the United States from 36 per cent of total exports in 1939 to 42 per cent in 1940,[30] and 57 per cent in 1941.[31] The United Kingdom also increased her share of total Brazilian exports from 10 per cent in 1939 to 17 per cent in 1940, but this proportion declined to 12 per cent in 1941. The United States increased her share of Brazilian imports in even more spectacular fashion, her portion rising from 34 per cent in 1939 to 52 per cent in 1940,[32] and 60 per

[28] Pan American Union, *Foreign Trade Series 191*, p. 10.

[29] *Ibid.*, p. 5.

[30] Pan American Union, *Foreign Trade Series 188*, p. 11.

[31] William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America*, 11:77–78, April–May–June, 1942.

[32] Pan American Union, *Foreign Trade Series 188*, p. 5.

cent in 1941.[33] This increase assumes especial significance when it is noted that even the 34 per cent in 1939 was unusually high. Argentina also increased her share of Brazilian imports, providing 8 per cent in 1939 and 11 per cent in 1940 and 1941. The United Kingdom and other nations either barely held their own as sources of Brazilian imports or lost ground.

Certain of the Central American and West Indian countries, oriented toward the United States even during the pre-World War II period, moved even further in this direction under the impact of the war. Cuba, which had imported 78 per cent of total imports from the United States in 1940, took 88 per cent of her total imports from this country in 1941.[34] Although she had already exported 83 per cent of her total exports to the United States in 1940, this proportion rose to 86 per cent in 1941. The share of America, North and South together, in Cuba's exports rose from 83 to 94 per cent, whereas the hemisphere furnished 90 per cent of Cuban imports as against 85 per cent in 1940.

Likewise, Costa Rica, which had shipped 59 per cent of her total exports to this country in 1940, increased this proportion to 81 per cent in 1941.[35] The share of the United States in Costa Rican imports rose from 75 to 81 per cent over that same period. The United States increased her proportion of exports from Colombia, another Caribbean country, from 70 per cent in 1940 to 76 per cent in 1941, while her shipments to that country rose from 74 to 77 per cent of the total.[36] The same story has been repeated throughout the Caribbean area, as elsewhere in the hemisphere on a less extreme scale.

Changed Distribution of Argentine Trade

The influence of the war upon Argentina has been especially significant as well as most spectacular.[37] World War II broke out before Argentina had completely recovered from the ravages and maladjustments

[33] William Raleigh and Eugene Ysita, *loc. cit.*
[34] *Ibid.*, p. 118.
[35] *Ibid.*, p. 111.
[36] *Ibid.*, p. 96.
[37] The subsequent analysis of the influence of World War II upon Argentina's foreign trade and economy is based in part upon: J. C. de Wilde and Bryce Wood, "U. S. Trade Ties with Argentina," *Foreign Policy Reports*, 17:222–232, December 1, 1941.

of the great economic depression of the thirties. She was not immediately stricken by the war, however, although Europe had been taking about three-fourths of Argentine exports and providing about three-fourths of her imports. The loss of Germany, even including Poland, Czechoslovakia, and Austria, involved but a minor portion of Argentina's foreign trade. Argentina had further cushioned the shock by restricting exports to Germany to the value of imports, which forestalled the creation of a large frozen balance in Berlin. To offset the loss of German-controlled trade, increased shipments to Italy, Scandinavia, and the Low Countries continued until well into 1940. Since the United Kingdom continued her large purchases, both the volume and value of Argentine exports were greater during the first nine months of 1940 than in the corresponding months of 1939. During this nine-month period of 1940, the actual volume of Argentine imports was lower than during the equivalent period of the preceding year, but higher prices served to increase the total value of her imports.

With the spreading of the war in the spring and fall of 1940, Argentina finally felt the full, shattering impact of World War II. Of the entire European continent, only Spain and Portugal remained open to Argentine trade. Almost all the Scandinavian, Dutch, Greek, French, and Italian ships, which had accounted for nearly half the tonnage entering Argentine ports during the first half of 1940, now ceased to enter these ports. With increased sinkings of British ships, the tonnage of vessels arriving in these ports dropped from 4,146,000 in the first 6 months of 1940 to 2,544,000 in the second half of the year, or a decline of 39 per cent. Hence, exports dropped over 50 per cent during that six-month period, although imports were relatively well maintained. Toward the end of 1940, Argentina seemed on the brink of a major economic catastrophe. Although her position is still precarious, the expected economic disaster has not yet completely materialized.

Argentina was able partially to combat this crisis because of the coincidence of several factors. There has been a further increase in internal economic activity, industrialization has continued to make some progress, and the government has at least delayed domestic agricultural collapse by buying up farm surpluses at minimum prices. More fundamentally, Argentina has been able to find new trade outlets for many of her products. In place of such staples as grain, whose exports have diminished, many other products not formerly significant in Argen-

tina's export trade have recently been sold abroad in increasing quantities. Among these have been wines and liquors, vegetable oils, cotton, furs, sugar, minerals, and dairy products. The Argentine government has subsidized the exportation of some of these products, in order to foster a desired tendency toward diversification of Argentine export trade.

The government has also attempted to promote increased, or at least constant, exports to those markets still open. Exports to Spain have increased; shipments to the United Kingdom, although dwindling, have not dropped drastically; and Argentine trade with Latin American countries has developed notably. In relations with most of the foregoing nations and areas, the maintenance of export trade has been encouraged by subsidies, special trade pacts, clearing agreements, and similar devices.

The phenomenal increase in exports to the United States during late 1940 and subsequently has been the most significant single factor sustaining the Argentine economy. In late 1940, Argentina depended upon the United States for essential imports but she was unable to appreciably increase her exports to this country. Argentina determined to reduce imports from the United States, this decision being implemented by discriminative exchange restrictions. The crisis of 1940, however, has been largely minimized by the abrupt change in Argentine–United States trade relations that materialized during 1941. During the first ten months of 1941, Argentine exports to the United States increased 126 per cent, owing largely to the increased demand for wool, hides, skins, and quebracho extract essential to the United States defense program. Argentina has also sold to the United States products formerly bought in Europe and elsewhere. Meanwhile, United States exports to Argentina have dropped, owing in large part to the shift in the United States from peacetime to wartime production. Argentina's supply of exchange was thus vastly increased, and the stage was set for a trade pact and relaxation of exchange restrictions.

Argentine trade statistics mirror this changed situation. Notable have been the rise of the United States, the increased significance of Brazil and other Latin American nations, the slightly diminished portion of the United Kingdom, and the curtailment of trade with the nations of continental Europe.[38] The United States increased her share of Argen-

[38] See Appendix, Table 23, p. 415.

tine exports from 18 per cent in 1940 to 37 per cent in 1941,[39] a spectacular gain in the case of this Latin American nation oriented toward Europe. Imports from the United States, however, did not register comparable gains.

Elimination of Japan

It is probable that the continued progress of the war will witness further gains on the part of the United States, despite the transference of this nation's productive efforts from peace to war. Heavy United States purchases of strategic raw materials, Export–Import Bank loans, and special commodity agreements tend to accentuate the continued dominance of the United States as a wartime trader with Latin America. Japan, an important factor in recent Latin American commerce, has now been virtually eliminated as a market and source of essential manufactures. In certain nations, the effect of this development has been quite spectacular. The foreign trade of Peru in 1940 and 1941 serves as an illustration.[40] The United States had increased her share of Peruvian exports by less than one per cent, a gain matched by Argentina, Chile, and especially Canada. The United Kingdom slumped from 13 to 2 per cent, and Germany continued isolated from Peru. Japan, however, had increased her share of Peruvian exports from 8 to 18 per cent. The imports of Peru, however, followed a very different pattern, with the United States, Canada, Brazil, and Chile gaining ground, and the United Kingdom, Argentina, Germany, and Japan losing ground. Nevertheless, the elimination of Japan as a purchaser meant that Peru no longer possessed a market which had taken nearly one-fifth of her exports.

Effect upon Trade Balances

World War II has not only increased the importance of the United States as a Latin American trader, but it has also altered trade balances. During the 1930–1939 decade, many Latin American countries were very much concerned about their trade balances with the United States. Because these balances were often adverse, exchange control frequently operated against this country. During the 1938–1940 period, Latin

[39] William Raleigh and Eugene Ysita, *op. cit.*, pp. 59–60.

[40] H. S. Giusta and C. Corliss, "Peru in 1941, Part II," *Foreign Commerce Weekly*, 6:10–11, March 28, 1942.

America had an increasingly "unfavorable" or import balance with the United States.[41] In 1940, this import balance aggregated $106,700,000, which made Latin American readjustment very difficult. During the first year of the war, United States exports to Latin America increased by 50 per cent.[42] Contrariwise, United States imports from the nations to the south increased but 31 per cent. The tide began to turn, however, in late 1940. United States purchases of raw materials were beginning to swell Latin American exports, and in the first quarter of 1941 imports from Latin America exceeded exports to that area by $69,000,000.[43] An export balance replaced an import balance in Argentina, Brazil, Chile, Bolivia, Peru, Uruguay, and several other countries. This shift heralded a new wartime era during which Latin American nations were to be concerned, not over adverse trade balances, but over the continued importation of essential imports.

Future Position of the United States

The extent to which Latin American–United States wartime trade has been able to expand has depended upon several factors. These include the length of the conflict, the extent of United States preoccupation with the war effort, the ability of Latin America to provide adequate quantities of strategic and critical raw materials, developments pertaining to trade restrictions and exchange control, and the volume of United States private and public capital flowing into Latin America. Beginning in 1942, however, the quantity of available shipping became perhaps the prime limiting factor. With the withdrawal of the United Fruit Company and other fleets for wartime service, with the virtual cessation of regular service to Argentine and other ports, and finally with the outbreak of submarine warfare, the problem of transport became of paramount importance.

It is by no means certain, of course, that the end of World War II will necessarily witness the maintenance of the predominant wartime position of the United States. Much depends upon the length of the

[41] William La Varre, "United States Absorbing Increased Portion of Latin American Exports," *Foreign Commerce Weekly*, 4:6, July 19, 1941.

[42] Lew Clark, "One Year of War, and United States Trade with Latin America," *Foreign Commerce Weekly*, 1:47, October 12, 1940.

[43] William La Varre, *loc. cit.*

war, the degree to which shipping shortages force local self-sufficiency, the effect of Export-Import Bank loans, and other variables. Most significantly, the role of the United States will be determined in large part by the nature of the peace and the type of world economy which emerges. If relatively unrestricted world trade is resumed, there is no reason to believe that European nations will not recover at least a substantial portion of the trade interrupted during the war. As long as several Latin American nations produce export staples which are also produced in the United States and consumed in Europe, Europe will remain a dominant market. This conclusion does not minimize the possibility, however, of an increasing volume of United States–Latin American trade. Nor does it deny the possibility of Latin American diversification, production of more complementary products, and intensified industrialization. Such changes would bring about far-reaching alterations in the channeling of Latin American foreign trade.

Increased Intra-Latin American Trade

World War II has also tended to increase the relative, if not the absolute, portion of intra-Latin American trade. As the progress of the war has shut off one former market or import source after another, the nations to the south have been forced to increased trading with one another. With current shipping shortages threatening to curtail the volume of trade between Latin America and the United States, the relative proportion of intra-Latin American trade will doubtless continue to rise. In 1940, Latin American republics sold 20 per cent more goods to other nations south of the Rio Grande than they did in 1939.[44] This gain was chiefly due to the increased exports from Argentina, which accounted for half the total increase, Brazil, Venezuela, and Chile. Of the nineteen countries for which figures were available (excludes Panama), eleven sold more to Latin America in 1940 than in 1939. Argentina, Brazil, and Peru, however, accounted for 73 per cent, or roughly three-fourths, of the total of such export trade in both years.

[44] Statistics in this paragraph are taken from "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:97, April–May–June, 1941. For fragmentary 1941 statistics revealing much the same trend, see William Raleigh and Eugene Ysita, *op. cit.*, pp. 51–126.

Yet, despite these increases, only three countries in 1939 (Paraguay, Peru, and Ecuador) and five in 1940 (Paraguay, Ecuador, Peru, Argentina, and Brazil) exported 10 per cent or more of their total shipments to other Latin American republics.

Contrasts between 1938 and 1940 also reveal this gradual increase in the importance of intra-Latin American trade. In 1938, trade among the twenty republics of Latin America aggregated 7.6 per cent of the total foreign commerce of this vast area.[45] Exports amounted to 6.1 per cent of total shipments to the world, and imports from other Latin American countries accounted for 9.4 per cent of total purchases. In 1940, such trade accounted for 9.5 per cent of total foreign trade, 7.9 per cent of total exports, and 12 per cent of total imports. Apparently such commerce has continued to increase gradually because of wartime curtailment of foreign markets. Probable long-range prospects for such intra-American trade will be analyzed later in this chapter.

Paraguay continued to be the sole nation dominated economically by a neighbor. In 1940, for instance, Argentina furnished more than twice the amount of exports into Paraguay than did the United States, the second largest source.[46] Argentina remained the ranking market for Paraguayan exports by a rather slender margin. Trade statistics after 1940 reveal no change in this position, which seems deeply rooted in the geography, economy, and history of Paraguay. A manifestation of this dependence of Paraguay is that the Argentine peso continues to be virtually legal tender in Paraguay. Plans during the first year of the war to place the Paraguayan monetary unit on an international basis, with quotations in other foreign currencies, did not materialize.[47] Paraguayan traders must still convert Paraguayan pesos into Argentine paper pesos to get value in terms of other currency units.

Trade between the republics of Latin America and foreign possessions in the area remained negligible, with the primary exceptions of the oil trade between Venezuela, Colombia, and the Dutch islands of Aruba and Curacao. This trade dropped by 16 per cent in 1940, from $222,-

[45] This 1938–1940 contrast was derived from Lew Clark, "Latin American Trade Trends in 1940," *Foreign Commerce Weekly*, 3:270, 273–274, May 17, 1941.

[46] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 43, p. 3.

[47] *Ibid.*, pp. 3–4.

000,000 in 1939 to $187,000,000 in 1940.[48] Nevertheless, export of petroleum from these republics to the Netherlands West Indies constituted 90 per cent of the total value of all exports to all of "other America," including Canada, in 1939 and 83 per cent in 1940. This dwindling trade was directly related to the outbreak of World War II and curtailed markets for the refined product. With the outbreak of submarine warfare in the Caribbean, this trade current was struck another crippling blow.

With continued progress of the war, intra-Latin American trade became increasingly important.[49] Blockade of foreign sources and markets, as well as priorities in the United States and Great Britain, forced the region back upon itself. Certain positive inducements to trade, such as increased manufacturing, new trade treaties, and improvement in internal transport, also began to take effect. Textiles, coal, and other products formerly largely imported began to enter into intra-Latin American trade.

This new prominence of intra-Latin American commerce has been most striking in South America, although it has permeated all of Latin America. Brazilian exports to Latin America in the first nine months of 1941 increased 83 per cent over the corresponding period of 1940.[50] Argentina's exports to Latin America in 1941 were 29 per cent above 1940, and imports from Latin America had risen 29 per cent. Although these imports constituted but 17 per cent of total Argentine imports in 1940, they aggregated 27 per cent in 1941. Chile's 1941 exports to Latin America rose 91 per cent over 1940, Mexico's shipments to Latin America increased 81 per cent, imports from within the area rising by 190 per cent.

Much of this movement toward increased intra-Latin American trade has been an outgrowth of wartime necessity, but certain post-war implications can be noted. To the extent that Latin American industrialization has been accentuated, local transportation improved, tariff restrictions lowered, and new commercial habits created, such trade may continue on an enlarged scale.

[48] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:97–98, April–May–June, 1941.

[49] R. Carlyle Beyer, "Latin America Now Trades with Itself," *Foreign Commerce Weekly*, 7:3–5, 36, June 27, 1942.

[50] These figures are taken from *ibid.*, p. 3.

Conclusion

Despite the vicissitudes of war, depression, and international flux, the orientation of Latin American nations relative to the rest of the world has remained relatively constant. Even prior to 1913, Latin America could be divided into four great areas or arbitrary regions, on the basis of trade distribution alone. The Caribbean region, adjacent to the United States and producing complementary products, was strongly drawn toward this country. Brazil, as well as the West Coast nations of South America, were not so close and did not produce wholly complementary products. Hence, these two areas were pulled in two directions, being divided in their economic allegiance between Europe and the United States. The East Coast, temperate zone countries of South America, including Argentina, Paraguay, and Uruguay, found their great markets in Europe and were dependent upon that continent.

Since that time, two wars, a great economic depression, and over a quarter century of economic change have intervened; yet shifts in that pattern have been a matter of degree rather than of kind. World War I occasioned a sharp rise in the relative importance of the United States, together with virtual elimination of the Central Powers. After the war, however, the United States reverted to nearly pre-World War I stature as a trader with Latin America. During the 1930–1939 decade, the rise of Germany was the most spectacular change in the Latin American trading scene, coupled with a small-scale spurt by Japan late in the decade. World War II eliminated Germany, France, Italy, and ultimately Japan as traders; the volume of British trade dwindled, and the United States increased in stature. Despite this readjustment, however, the basic orientation of Latin America has not been revolutionized. In a world economy, the factors of distance and composition of trade will again assert themselves. As long as Argentina's leading exports can normally be sold in Europe and not in the United States, her economy will be drawn toward the former area. Meanwhile, the volume of intra-Latin American trade, long relatively small, has been growing noticeably in recent years. To the extent that the various nations diversify or industrialize, improve internal transport, and integrate policy this trend may be expected to continue.

Chapter 4

THE ROLE OF FOREIGN CAPITAL IN LATIN AMERICA

LATIN AMERICA, like other non-industrial areas, has not been able to accumulate domestic capital in sufficient amounts to further her own economic development. As a result, these nations have been traditionally dependent upon other countries for this factor of production. Although foreign influence upon Latin American life has been noted since the discovery of this portion of the world, the investment of funds from abroad dates from the achievement of political independence in the nineteenth century.

Historical Background

Economic life in colonial Latin America under Spanish and Portuguese rule was molded, in general, on a pattern of complete economic submission to those old-world governments. Taxation, landholding, the development of rich mining and agricultural lands, and other phases of economic activity were controlled to the point of almost complete exploitation.[1] The Spanish government monopolized all foreign trade based on products of its colonies, moved it in ships owned and operated by Spaniards, and even prohibited the entry into certain ports of traders who were not authorized Spaniards. Latin America, under Spanish and Portuguese rule, was, in reality, an unknown continent, its economic organization essentially static.

The system of government and economic life, which had been patterned on conditions of the sixteenth century, had changed very little by the end of the eighteenth. The outcome of three centuries of dictation and exploitation was revolution, finally resulting in political independence early in the nineteenth century. After independence, the interest taken in this portion of the world by foreign individuals and governments was almost immediately stimulated. Men of science from

[1] A. Curtis Wilgus, *The Development of Hispanic America*, pp. 160–167.

Europe traveled to the new world to examine resources of a hitherto strange land. Naval experts from the British Admiralty charted the coasts, and men of business and finance became interested in potential profits.[2] Despite the changes which took place, however, the basis of economic life in the first half of the nineteenth century did not change substantially. Independence was, in reality, only a political achievement until the beginning of the modern period, dating from the introduction of railways and steam navigation.[3]

The influence of foreign capital may be analyzed by outlining three stages in the economic evolution of the area.[4] The first, or developmental stage, is characterized by a simple system of economic life, unstable political conditions, and financial difficulties. This was an experimental stage of exploration, settlement, and wars for independence. These wars for political independence presented an occasion for foreign borrowing, and in 1822 loans were floated in London by Chile, Colombia, Peru, and Central American countries. Toward the middle of the century, domestic industry was beginning to get under way, and private capital from Europe was trickling into mines and the business of importing and exporting. The industrial system was still simple, however, and there was an almost complete absence of manufacture of finished products. Practically the only important extractive industry was the guano business in Peru, although mining of copper and silver in Peru, Mexico, Bolivia, and Chile was being carried on by primitive methods. Argentina was still in the pastoral stage, and coffee was not considered the greatest source of Brazil's wealth until the last quarter of the century. It is highly probable that economic life actually became harder after the wars of independence. Political difficulties following such wars reacted unfavorably upon the production of essential minerals, and all the primary goods of life, with the exception of food, were imported from abroad. The influx of capital from Europe offset these difficulties to some extent, but the economic environment was not sufficiently attractive to call forth large investments from abroad.[5]

[2] Royal Institute of International Affairs, *The Republics of South America*, p. 128.

[3] *Ibid.*, p. 172.

[4] Max Winkler, *Investments of United States Capital in Latin America*, pp. 19–22.

[5] Royal Institute of International Affairs, *The Republics of South America*, p. 174.

The second phase of economic development in Latin America covers the period from the last quarter of the nineteenth century to the World War of 1914. This was a period characterized by increasing foreign trade with Europe, the stabilization of political and financial conditions, and a steadily increasing flow of foreign capital from Europe. The further industrialization of Europe brought increases in the amount of savings available for investment; the economic development of the United States had passed the stage where anticipated returns from "frontier development" were comparable to those expected in Latin America; and the richest prizes in the British Empire had been claimed. Such factors as these, plus an apparent increase in governmental stability, caused investors to turn toward Latin America. As elsewhere in the New World, economic expansion in Latin America followed the building of railways. The products of farms and mines flowed in increasing amounts from the interior to the seacoast for export. The extension of railways, improvements of harbors, increase of immigration, the growing European demand for foodstuffs were the features of spectacular trade development in Latin America in the half century prior to World War I. All Latin American countries enjoyed the impact of the increased tempo of economic life associated with foreign capital from Europe.

The third phase in Latin America's economic development begins with the first World War and runs to the present time. This period is characterized by an advance in the volume and value of international trade, more scientific and intensive methods in the extractive industries, and the rise of local manufacturing. Currencies were stabilized, public revenues increased, and public debts incurred for purposes of improvement. Latin America was brought into still closer contact with Europe and the United States. Foreign lending practically ceased with the outbreak of the war in 1914, but recovery from the ensuing depression was aided by new lending. The United States had become a nation with surplus capital and was the world's most important post-war lender. Latin American enterprises sought funds in the New World's capital markets, and the United States replaced Europe as the dominant foreign creditor to Latin America. Trade with the United States showed a steady growth for a quarter of a century, a considerable portion of it due, no doubt, to the active and progressive exploitation of Latin American resources by United States concerns.

Economics of Foreign Investment

Loans from an area where capital is relatively plentiful to an area where it is scarce, if repaid out of increased productivity of the borrowing region, tend to result in a more efficient use of the world's resources. Lending on an international scale involves delicate adjustments in the banking systems of various countries. The machinery by which it is carried on moves in a structure complicated by differing names and definitions of currencies. Fundamentally, however, lending among nations is the same as any other type of investment transaction. A nation, like an individual, gives up command over goods and services in the present; the power to lend must ultimately be derived from the power to produce. A borrowing nation, like an individual borrower, receives command over goods and services in the present, and pays by returning (or giving up) goods and services in the future. The power to repay, and therefore continued borrowing, must ultimately come from the power to produce. This is not a new discovery in commercial financial operations but it is worth while, particularly in a consideration of international lending, to re-emphasize the fundamental relationship existing between financial transactions and their accompanying goods (or services) transactions. The two types of international operations are only different parts of the same process.

It follows from such a view of lending and repaying that the process of foreign investment, if it is to be carried on in an orderly manner, depends upon the existence of markets for the disposal and flow of goods. Disordered or unbalanced financial transactions contribute to disrupted markets. Unstable markets make difficult a continued flow of financial transactions, whether they arise out of new loans or repayment of past borrowing. Thus it can be seen that foreign investment goes beyond mere consideration of financial machinery. The lending nation, in her efforts to create capital, directs her economic resources to certain types of products. The use of her resources in these directions calls attention to the manner in which the products of another nation might fit into the lending nation's economic organization. Increased supplies of the goods of another country are desired and thus an outlet for investment of capital abroad is at hand. Not only does the capital-exporting country vision the possibility of the products of other nations

fitting into her productive arrangements, but she also considers the type of goods (exports) which markets in the borrowing country will absorb. The debtor country, through her newly acquired capital, concentrates her economic effort on those things which she can produce most efficiently in order to accumulate sufficient surpluses with which to repay her loans. The commodities for which she expends her efforts must, of course, be products for which markets are available.

In the final analysis, a debtor country produces what she does in order to get what she wants to borrow, namely, the goods of another country. In producing what she does for repayment, the borrowing country is forced to direct her resources into channels favored by other countries. This does not mean that borrowing nations find it impossible to work out repayment by selling to nations other than the lending ones, because such roundabout methods of repayment are a part of normal international financial settlements. If a debtor country uses the proceeds of a loan in accordance with her own decisions, she may increase her purchases in a country other than the one from which she borrowed. The methods of repayment of the loan may take the form of the debtor increasing her exports to a third country, thereby receiving foreign exchange acceptable to the lending country for repayment. This is a characteristic of so-called triangular, or multilateral, trade. The important thing to note is that the debtor country must export to discharge her obligations, and the creditor country must accept imports to receive payment. When a nation relatively poor in capital obtains loans from abroad, her internal economic organization and her position in an international structure are greatly influenced by the pressure of these sums owed to other nations. Certainly Latin America presents a clear illustration of the principles discussed above.

As is to be expected, the balances of payments of Latin American countries have become adjusted to a relatively large inflow of foreign capital. As long as foreign capital could be obtained, Latin American countries placed in command of foreign exchange could continue debt service. Reductions in this flow of capital, however, such as those that occurred in the years after the stock market crash of 1929 in the United States, made it necessary for these countries to seek additional foreign exchange from other sources. An increase in exports was necessary in order to obtain sufficient foreign exchange with which to purchase imports and to make payments on past loans. Attempts to do this were

not successful, however, since the products being sold by several Latin American countries consisted of goods for which the world demand is relatively inelastic. The consumption of such goods does not increase significantly with a reduction in price. It is apparent, then, that a country highly specialized in the direction of a few commodities must, when international markets have been depressed, dispose of its commodities at prices dictated by buyers.

Foreign Investment and Public Finance

It is pertinent, at this point, to observe the relationships between foreign borrowing and the development of public finance in Latin America. As in most countries in their early stages of development, Latin American governments have taken an active part in the development of transportation and communication facilities. Direct taxation is almost negligible in an area where populations are widely scattered and individual incomes are small. As a result, public revenue in Latin America arises chiefly from indirect taxation on imports and exports. Receipts from these sources have been supplemented by external borrowing, since foreign capital was easily obtained. In periods of prosperity and expansion of governmental expenditures, the reliance upon foreign capital as a source of public revenue was especially significant. Payment upon debt, then, has become an important item on the expenditure side of national budgets.[6] Many of the enterprises into which governments directed the proceeds of their foreign borrowing were not directly profitable, but they were enterprises considered necessary for economic development. The ease with which funds could be borrowed by governments has undoubtedly contributed to political instability, since the proceeds were not always used with sound judgment or for the intended purposes. From the viewpoint of international relations, however, the important thing to note is that governments borrowing from abroad must face the necessity of earning foreign exchange to discharge such debt. Many of the developments, for which governments borrowed, aided indirectly in expanding exports and thereby created foreign exchange. Nevertheless, inability to tax and borrow internally has contributed to Latin America's insecure international position.

[6] *Ibid.*, p. 233.

Banking

Dependence upon foreign capital has also influenced the development of banking in Latin America. Foreign enterprise has dominated banking in the past and continues to be of considerable importance. Only in comparatively recent years has central banking commanded the attention of Latin American governments, and its development has been pretty largely in the hands of foreign specialists. The absence of a money market in Latin America, in the sense in which that term is ordinarily used in reference to Europe and the United States, obviously makes the problems of central banking different from those normally associated with such a system. Active dealings in foreign exchange become a usual feature of banking policy under such conditions. To the extent that foreign investment is an effective factor in international economic relations, it tends to bring the borrowing countries under the influence of the prevailing monetary and banking systems of the lending nations.

Contrast with United States

Foreign investment in Latin America is seen, then, from the historical point of view, as a form of expansion of western culture. It was a method whereby the technological processes, developed to a high degree in the Western World, could be transferred and expanded.[7] On purely economic grounds, the movement has been one of extending over wider areas all those things normally associated with the machine age. Transportation and communication facilities and the pattern of financial and business organization, upon which other portions of the world have materially prospered, have been introduced, or at least speeded up, by the flow of capital from the outside. Progress in medicine, education, and other social services contributing to improved scales of living have come with the foreigner's purse. The student of international affairs is aware of the many blots of a non-economic nature on the historical balance sheet of foreign investment, but essentially this expansion of technological progress is the pattern which has been at work in similar manner in all parts of the world.

[7] Max Handman, *Economic Relations with Latin America*, p. 33.

As one notes this development in Latin America, however, he observes a different setting from the one prevailing, for example, in the United States. Proximity to Europe, more stable political conditions, and a more diversified natural wealth brought economic progress to the United States far in advance of that of other American nations.[8] In 1890, industrial development was already evident in the United States. She was both a producing and manufacturing nation and the only exporter of industrial products in the New World. Industrialization in the United States was carried on to a very considerable extent by her own production; the other American nations contributed to the expanding industrial development of Europe. As the United States progressed in stages of economic development to become finally an exporter of capital, Latin America remained in the position of a borrower from abroad. The participation of the United States in international trade has never been so dependent upon fluctuations in world markets for one or two export commodities. With the exception of her own colonial era, consideration of balances of payments has never been so decisive an influence on economic life in the United States as it has been in Latin America; the pressure of external debt has never been of such continued significance in the budget of the United States. Not only was economic development later in arriving in Latin America but, when it came, foreign capital had already obtained a strong foothold. Foreign enterprise pointed the economic resources of the area in the direction of intensive specialization in raw materials.

Various economic difficulties which Latin American nations have faced in recent years have been attributed to their extreme reliance upon borrowing from abroad. It is often implied that much of this borrowing was carried on because of the insistence of foreign financial institutions. These institutions, reputedly, were motivated only by the desire for profits, regardless of ultimate effects upon international economic stability. No student of international economic affairs would deny the existence of a considerable element of truth in such charges. The effect of depression in international markets undoubtedly would have been less severe in Latin America had the area not been so dependent upon foreign capital. On the other hand, evidence forces one to admit that capital brought to countries of Latin America many things which they

[8] A. E. Shaw, "A Half Century of Economic Progress in America," *Bulletin of Pan American Union*, 74:292, April, 1940.

were unable to provide for themselves. Railways, roads, harbors, public utility services, and other conveniences have become a part of economic life in an area which was unable to provide such things from its own resources. Such evidence must be weighed and balanced against disadvantages which have emerged from foreign borrowing.

Conclusion

The traditional role of foreign capital in Latin America was the development of enterprises producing raw materials for world markets. Investment of this type is characteristic of the early stages of economic development in an area capable of producing the commodities desired by industrial nations with available capital to lend. As a result the production of agricultural commodities, minerals, and forest products becomes highly specialized and such extractive industries tend to dominate the economic life of the debtor nation. The intensive development of such resources also tends to lengthen the period of "colonial" development. Exports are necessary and desirable in order to repay loans but production for domestic consumption must not be unduly retarded in the interest of internal economic balance.

Foreign investment in more recent years has, however, been departing from the traditional pattern. Latin American nations and their creditors have seen the extreme specialization in export industries dominated by foreign capital and have been directing funds toward "non-export" enterprises. Public utilities, railroads, banking, assembly plants, sales organizations, and air transport are examples. The development of industries producing shoes, cement, soap, and other articles for domestic consumption is further evidence of the shift toward production for local markets.

A large share of the past investment in Latin America was made in an era of expanding and relatively free trade. We have seen that continuous lending and borrowing call for continued readjustments in established currents of trade. The economic life of the lending and borrowing countries must be in a state of almost constant adjustment, not only to each other but to the rest of the trading world. In the modern world those adjustments have become more and more difficult. The breakdown of international markets and the world-wide trend toward economic nationalism have surrounded world trade with a veritable net of trading restrictions. Exports and imports, which formerly moved in

response to capital movements, are no longer able to do so in the manner of a former era. Restrictions have been placed upon capital export for service upon foreign debt. Various forms of regulation and taxation of foreign business enterprises have discouraged the flow of private capital in search of profit. Repudiation of debts and fear of expropriation have limited investment in certain areas.

In the long run, international capital movements tend to improve the general productivity of nations participating in such transactions. Actual realization of increased productive power that comes to a borrowing nation depends, however, upon its ability to export goods that continue to be accepted abroad.

Chapter 5

CURRENT FOREIGN INVESTMENT IN LATIN AMERICA

FOREIGN CAPITAL has played a vital part in facilitating the exploitation of Latin American resources and in shaping the peculiar development of Latin American economies. Without the huge volume of foreign capital which has been invested in Latin America, export industries could scarcely have been established upon such a large scale. Without this export trade, the fiscal systems and internal economies of the various nations would have assumed a very different nature. Any analysis of the economic development of Latin America must utilize this pivotal role of foreign investment as one point of departure. Likewise, any study of the possible future role of capital in this area must also involve an understanding of the past and present function and distribution of such investment.

Dominance of Direct Investments

Foreign investment in Latin America has been predominantly "colonial," with the world's trading powers investing heavily in minerals, foodstuffs, other raw materials, and public utilities industries. The colonial nature of investment in Latin America is indicated by the disproportionately large volume of direct relative to portfolio investments.[1]

United States investments in Latin America have been largely direct, despite tremendous United States purchases of Latin American bonds

[1] Direct and portfolio investments are defined as in U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 1*, pp. 2–3. Direct investments include all American (or British, etc.) investments in foreign corporations or enterprises controlled or heavily influenced by a person or small group of persons (corporate or natural) domiciled in the United States. Thus, direct investments are classified as to the domicile of the control of the enterprise. Portfolio investments include equity and other security investments in foreign-controlled corporations and in the issues of foreign governments. In Latin America, governmental issues or issues guaranteed by governments constitute the major types of portfolio investments.

during the 1920's. In 1930, at the end of a decade of fabulous portfolio investment, the United States had direct investments in Latin America aggregating $3,519,000,000,[2] and but $1,610,000,000 in portfolio investments. These totals were in significant contrast with total United States outlays abroad, amounting to $7,841,000,000 direct investment and $7,834,000,000 portfolio investment. The United States had invested about half of her total direct investments abroad in Latin America but held only about one-fifth of her total foreign portfolio investments south of the Rio Grande. More significantly, the ratio between United States direct and portfolio investments stood at over 2 : 1 in Latin America, as contrasted with about 1 : 1 in the entire world.

Apparently the relative volume of United States direct and portfolio investment has not been appreciably altered since 1930. In 1940, United States direct investments in Latin America aggregated $2,771,000,000, as opposed to total foreign direct investment of $7,000,000,000.[3] On December 31, 1940, the par value of United States portfolio investments in Latin America totaled $993,000,000, of the total portfolio investment abroad of $3,141,000,000.[4] The United States now has about two-fifths of her total foreign direct investments in Latin America, whereas the Latin American share of total United States portfolio investments abroad has risen to about one-third. The ratio between United States direct and portfolio investments has apparently increased to almost 3 : 1 in Latin America. This ratio has also increased to over 2 : 1 for all United States foreign investment, as the volume of portfolio investment has dwindled as a result of default, repatriation, transfer difficulties, and nationalism.

The British investment has also been heavily concentrated in direct rather than portfolio investment.[5] In 1939, of the total British investment in Latin America of £1,128,000,000, only £324,000,000 was in-

[2] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin* 731, pp. 18–25.

[3] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series* 20, pp. 4–5.

[4] Paul Dickens, "Status of United States Investment in Foreign Dollar Bonds, End of 1940," *Foreign Commerce Weekly*, 4:4, July 19, 1941.

[5] Since British foreign investments are not classified in direct and portfolio categories, the arbitrary assumption is made that British investment in Latin American government securities corresponds to United States portfolio investment, all other British Latin American investment being treated as direct. While this somewhat distorts the case, it is the only feasible assumption.

vested in government securities.[6] Since this amounted to a ratio of about 5 : 2, apparently British investment was also basically colonial. Although United States and British investments in Latin America have been centered in different spheres, this contrast should not shroud the fact that in both cases outlays have been predominantly direct and colonial. This conclusion will also receive added confirmation in subsequent analysis of the geographical distribution and functional composition of British and United States investment south of the Rio Grande.

Nationality of Foreign Investment in Latin America

Most of the foreign investment in Latin America has been by Great Britain and the United States, although French, Dutch, Swiss, and German funds have also been invested on a very substantial scale.

Significantly, the volume of British capital in Latin America has remained relatively constant since 1913, while the aggregate of United States investment has increased notably. In 1913, some $4,983,000,000 of British capital was invested south of the Rio Grande, while but $1,242,000,000 of United States funds were invested in Latin America.[7] In 1929, the British total had risen to $5,889,000,000, whereas the United States aggregate had soared to $5,587,000,000.[8] In that hectic sixteen-year period, the ratio between the volume of British capital in Latin America and the volume of United States capital in the area shifted from nearly 4 : 1 to almost 1 : 1. Much of this change occurred during the decade of 1920 to 1930,[9] when the volume of United States portfolio investments increased in startling fashion. This spectacular change in the nationality of foreign investment in Latin America affected France and Germany, as well as the United States and Great Britain. Just before the outbreak of World War I, France and Germany together accounted for slightly over one-fourth of total foreign investment in

[6] *Inter-American Statistical Yearbook, 1940*, p. 475.

[7] Max Winkler, *Investments of United States Capital in Latin America*, pp. 275, 280.

[8] *Ibid.*, pp. 278, 283.

[9] For a detailed analysis of British and United States foreign investment in Latin America during the 1920's, see Max Winkler, *op. cit.* This is somewhat outdated as an analysis of current outlays, but it is of historical interest as a reference book.

Latin America.[10] By 1929, both the absolute and relative share of France had been more than halved, and Germany virtually disappeared from the scene as a leading investor. Although Germany was to enjoy a resurgence as a trader during the depression years, this upsurge did not restore her vanished position as an investor.

In 1939, just before the outbreak of World War II, British capital in Latin America aggregated $5,003,000,000,[11] whereas the United States total had slumped to $4,012,000,000.[12] The post-1929 depression had obviously reduced the volume of both British and United States investments in Latin America, but the sharp reduction in the United States total was sufficient to change the ratio between British and United States outlays from the 1929 proportion of 1 : 1 to a 1939 ratio of 5 : 4. Interestingly enough, British investments in Latin America were partially liquidated during early stages of World War II as purchases from Latin America constituted a continued drain upon available exchange. Statistics dealing with 1940 British investments in Latin America clearly reveal this decline,[13] and later sale of railway and other properties further reduced British investment.

Distribution and Composition of British Investment in Latin America

Since Great Britain has long been the largest single foreign investor in Latin America, an analysis of her outlays south of the Rio Grande is in order. This study will be broken down into geographical distribution and functional composition of British investments.

Analysis of the geographical distribution of British investment in Latin America reveals that these outlays have continued to be centered in about the same areas decade after decade. In 1913, Great Britain had just under one-fourth of her Latin American capital invested in the Caribbean region, with Mexico predominant and Cuba and Guatemala trailing well behind.[14] She also had centered nearly one-fourth of her

[10] For a detailed 1914–1929 contrast, see Jaime Zuloaga, "The International Economic Relations of Latin America," *Commercial Pan America*, 10:14–15, January, 1941.

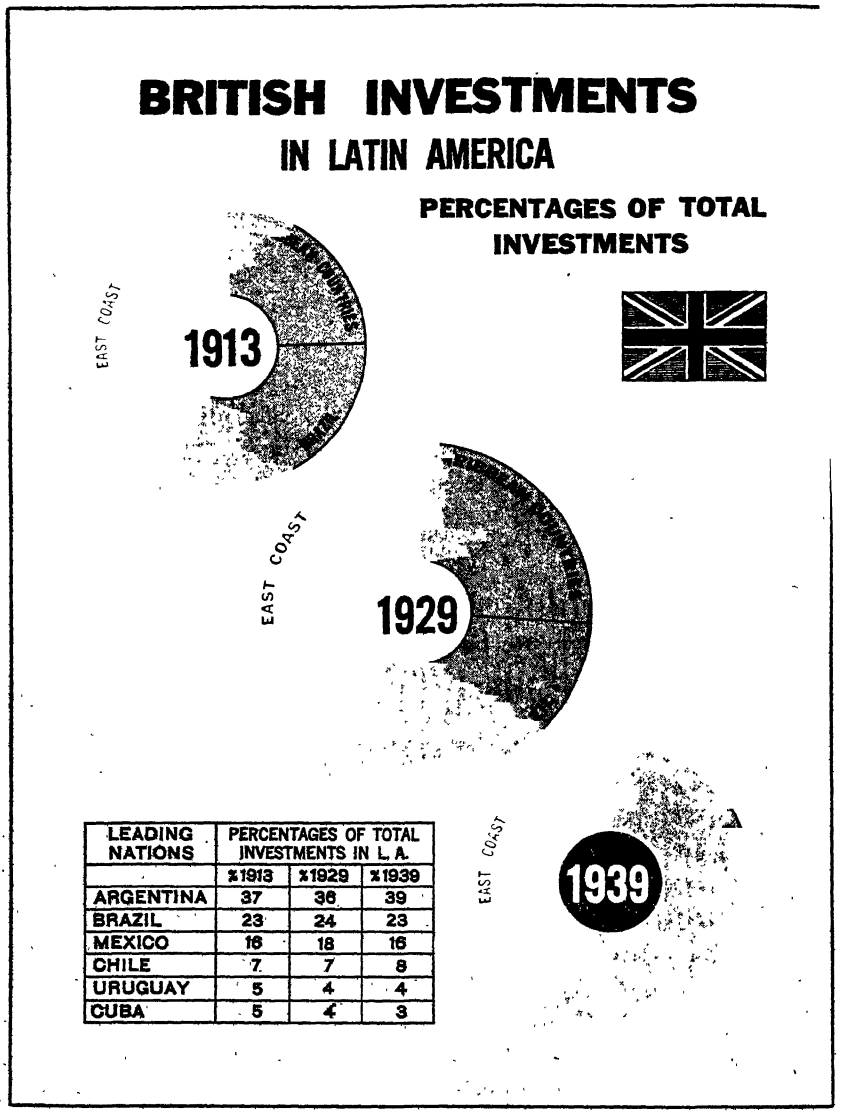
[11] *Inter-American Statistical Yearbook, 1940*, p. 475.

[12] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series* 8, p. 28.

[13] *South American Handbook, 1942*, p. 15.

[14] See Appendix, Table 24, p. 416.

Latin American investments in Brazil, that nation ranking second b hind Argentina as a field for British pre-war investment. Just und



LEADING NATIONS	PERCENTAGES OF TOTAL INVESTMENTS IN L. A.		
	%1913	%1929	%1939
ARGENTINA	37	36	39
BRAZIL	23	24	23
MEXICO	16	18	16
CHILE	7	7	8
URUGUAY	5	4	4
CUBA	5	4	3

one-tenth of her Latin American investment was focused in the West Coast region of South America, whereas Chile and Peru accounted for virtually all of this portion. Significantly, over two-fifths of total British

investments in Latin America in 1913 was in the East Coast area of South America, with Argentina alone accounting for most of that portion. Argentina, Brazil, and Mexico, in that order, accounted for over three-fourths of the entire British investment in Latin America in 1913.

In 1929, although a decade of strenuous post-war readjustment had ensued, the proportions attributable to the various regions had not changed significantly.[15] About the only shifts were an increase in the Caribbean region amounting to less than 2 per cent of total British investment in Latin America and a decline of about 2 per cent of the British Latin American total in Argentina and the East Coast countries of South America. The share of each region measured in terms of absolute value, however, revealed a marked increase, with the total Latin American investment by Great Britain larger by nearly $900,000,000 than in 1913. The shares of individual nations in British investment also revealed very little change, with Argentina, Brazil, and Mexico still ranking in that order and accounting for over three-fourths of the Latin American total.

In 1939, proportions remained much as they had always been save that the Caribbean portion declined somewhat, with slight rises in the non-Brazilian regions of South America.[16] Absolute values involved, however, had then declined to about 1913 levels, so these increases were relative only. Argentina, Brazil, and Mexico still dominated, continuing to account for over three-fourths of the British total. In short, the geographical distribution of British investment in Latin America showed a remarkably consistent pattern from 1913 through 1939. Despite wartime sale of British investments in certain countries, this long-standing pattern presumably continues substantially intact.

This geographical distribution of British investment in Latin America correlates quite closely with the orientation of Latin American foreign trade. Although British investment in the Caribbean area is somewhat larger than would be deduced from trade statistics, British outlays elsewhere are almost parallel to British–Latin American trade currents. That parallel is most notable in Argentina and other East Coast countries of South America.

Great Britain has long been the outstanding investor in Argentina, just as she has dominated the foreign commerce of that nation. Govern-

[15] See Appendix, Table 25, p. 417.
[16] See Appendix, Table 26, p. 418.

ment loans were floated in London early in the nineteenth century, and during the last half of that century British investment in Argentina assumed a dominant role. Over the 1910–1934 period, British investment in Argentina increased from 1,475,000,000 to 2,285,000,000 gold pesos.[17] During eight years selected at random, Britain's investments in that nation were usually about four times as large as the capital outlay of any other single power and at least twice as large as all other foreign investments in Argentina combined. British investments in Argentina in 1939 totaled nearly $2,000,000,000, more than half of which is invested in railways.

Incidentally, the other great trading powers of Europe have also invested heavily in Argentina. France long ranked second as an investor in that nation, her investment being stabilized at 410,000,000 gold pesos in 1910 and 450,000,000 gold pesos in 1934. Beginning about 1927, however, French investment in Argentina was surpassed by United States investment.

Germany has been the other leading European foreign investor in Argentina, generally ranking third or fourth, and investing 200,000,000 gold pesos in 1910 and 315,000,000 in 1934. French, German, Dutch, and Belgian capital in Argentina now aggregates about a billion dollars.[18] The French funds have been invested in government securities, railways, and ports, whereas German capital has been focused on land and cattle companies, as well as on commerce.

This seeming correlation between British investment and trade in Latin America is not surprising. There is always a rather intimate relationship between movement of goods and the flow of capital, although that connection is often obscured by multilateral trade and other items in the balance of payments. This relationship is especially notable in Latin America, which has long depended so markedly upon export trade. Foreign investments have generally been in extractive industries producing for export and dependent upon foreign markets. Even investments in so-called sheltered industries, such as manufacturing, distribution, and public utilities, have been markedly influenced by the world trade currents which so dominate Latin American economies.

[17] These 1910–1934 estimates are taken from Vernon Phelps, *International Economic Position of Argentina*, p. 246. For a detailed analysis of foreign investment in Argentina over this era see *ibid.*, pp. 99–123, 239–263.

[18] Clarence Haring, *Argentina and the United States*, p. 50.

The functional composition of British investment in Latin America is readily distinguished from that of United States capital in the area. The bulk of British capital has been concentrated in far fewer fields, and government bonds and public utility securities have been of greater relative significance.

The functional composition of British capital has not changed markedly since 1913, save for an increase in the significance of new types of investment and a decline in the relative importance of banking and shipping investments. In 1913, of the total British capital in Latin America estimated at $4,827,000,000,[19] 32 per cent of the total was invested in government bonds; 46 per cent in railway securities; 4 per cent in banking and shipping; and 18 per cent in miscellaneous investments. In 1939, just before the outbreak of World War II, total investment aggregated $5,003,000,000, and the ratios were 29 per cent in government bonds; 42 per cent in railway issues; 2 per cent in banking and shipping; and 27 per cent in miscellaneous investments. In 1913, government bonds and railway securities together accounted for 78 per cent, or nearly four-fifths of the total British investment south of the Rio Grande. In 1939, that combined portion stood at 71 per cent, still over seven-tenths of the total British investment in all Latin American fields.

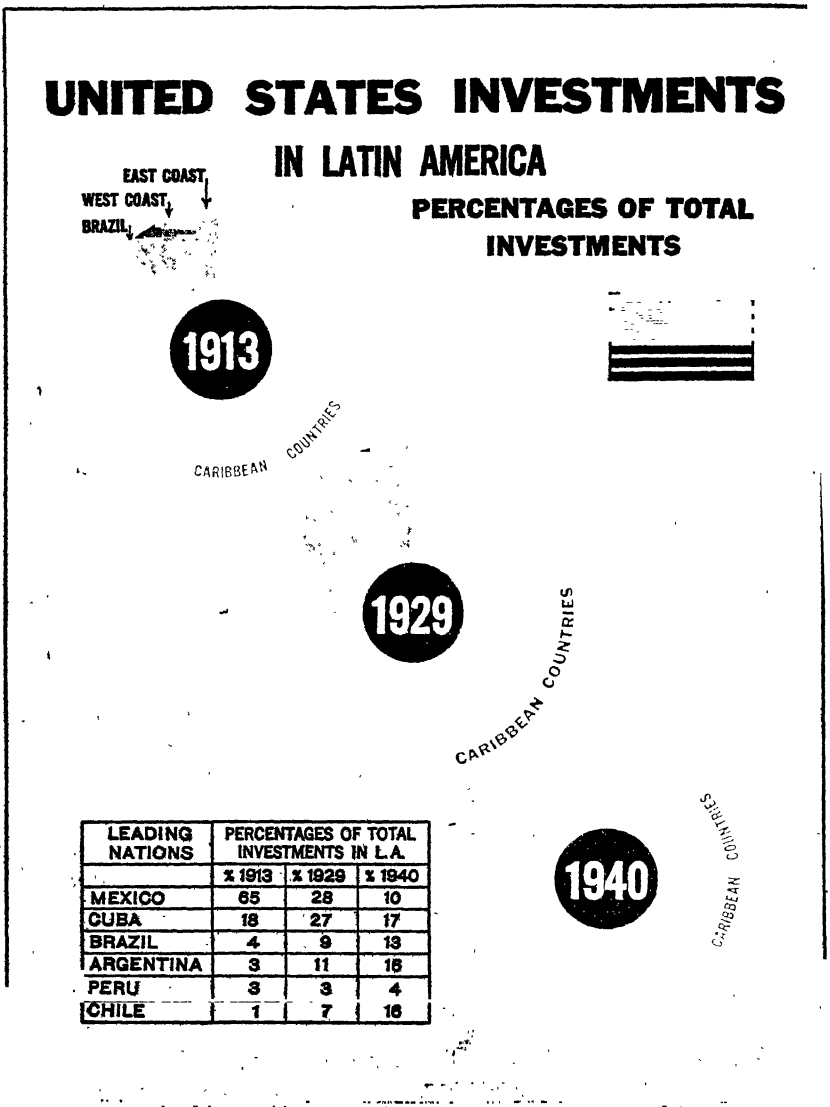
Distribution and Composition of United States Investment in Latin America

The United States, whose Latin American holdings almost match those of Great Britain, has investments scattered throughout all the lands to the south and in a host of fields. As for Great Britain, however, a fairly definite pattern of geographical distribution and functional composition can be ascertained.

United States investments in Latin America have been distributed geographically in rather consistent fashion since the beginning of the twentieth century. This geographical pattern has continued to prevail despite the enormous increase in the absolute sums involved and the upsurge of portfolio investments during the 1920's.

[19] The 1913 totals were converted at 4.8665; the 1939 conversion was at 4.4354. The following statistics concerning the functional composition were compiled from *Inter-American Statistical Yearbook, 1940*, p. 475.

The bulk of United States investment in 1913 was in the Caribbe region, over 86 per cent of the total being concentrated in this area



LEADING NATIONS	PERCENTAGES OF TOTAL INVESTMENTS IN L.A.		
	% 1913	% 1929	% 1940
MEXICO	65	28	10
CUBA	18	27	17
BRAZIL	4	9	13
ARGENTINA	3	11	16
PERU	3	3	4
CHILE	1	7	16

Investments in the other three Latin American areas varied from 4 to 6 per cent of the total. Mexico and Cuba combined received over four-

[20] See Appendix, Table 27, p. 419.

fifths of all the United States capital invested in Latin America, six Latin American nations receiving over nine-tenths of the total.

In 1929, after a major war and a decade of post-war readjustment and large-scale investment, United States investment was much more widely distributed over Latin America. Over 66 per cent of total United States investment in Latin America was still concentrated in the Caribbean region.[21] The residual 34 per cent was rather evenly distributed among the remaining areas of Latin America. All these other regions gained markedly at the expense of the Caribbean nations; the East Coast countries of South America registered the greatest gains. In 1929, Mexico and Cuba still accounted for 55 per cent, or over half, of total United States investment to the south. Seven other nations also took over one per cent apiece, the nine leading nations accounting for nearly nine-tenths of total United States investment in Latin America. Argentina reported the greatest gain of any Latin American nation during this period, the increase alone aggregating $571,000,000, or 8 per cent of total United States investment in Latin America.

After 1929, analysis of the geographical distribution of United States investment in Latin America should probably be broken down into direct and portfolio investments. Note, at the outset, the geographical distribution of United States direct investment in 1936 and 1940, the last years for which detailed official figures relative to such investment are available.[22] Almost three-fifths of our total direct investment in Latin America is in the Caribbean region, with the West Coast nations of South America, the East Coast countries of South America, and Brazil, in that order, dividing the remaining two-fifths. Cuba, Chile, Mexico, and Argentina, in that order, accounted for about seven-tenths of total United States direct investment in Latin America. Apparently direct investments in Chile had increased very markedly during the 1930's, the bulk of these new outlays being in copper and other mineral properties.

The United States investment concentration in the Caribbean region that has always been so notable in this country's direct investments is not evident in our portfolio investments. Analysis of United States portfolio investments in Latin America at the end of 1940 reveals the geographical dispersion of our portfolio investment in the lands to the

[21] See Appendix, Table 28, p. 420.
[22] See Appendix, Tables 29, 30, pp. 421–422.

south.[28] As of December 31, 1940, each of the four great Latin American regions claimed about equal portions of United States portfolio investment south of the Rio Grande. The Caribbean area received the smallest of these shares, some 22 per cent, and the West Coast countries of South America absorbed the largest portion, some 29 per cent of the total. The customary dominance of Mexico and Cuba, so evident in our direct investments, is almost totally lacking in these portfolio investments. None of the Mexican securities once listed in this category are now included in United States official investment statistics, most of these issues having been written off after a long era of default dating from 1914. Cuba, although absorbing $61,000,000 of United States portfolio investment, could claim but 6 per cent of total United States portfolio outlays in Latin America.

Contrariwise, Argentina, Chile, and Colombia absorbed half of total United States portfolio investment in Latin America at the end of 1940. These nations, plus Cuba, Peru, Bolivia, and Uruguay, accounted for seven-tenths of the United States total south of her borders. Chile and Argentina were about the only nations with leading status as the locale of both direct and portfolio investments of the United States. It is also notable that, although the United States has direct investments in every Latin American nation, she has no portfolio investments in six countries—Mexico, Honduras, Nicaragua, Venezuela, Ecuador, and Paraguay.

Like Great Britain's investment in Latin America, United States investment south of the Rio Grande tends to parallel her trade. United States domination of trade in the Caribbean, for example, has been accompanied by investment of huge sums in Cuba, Mexico, and other nations in this area. Such nations as Chile and Argentina, however, are more significant as centers of United States foreign investment than a study of trade statistics alone would indicate. In these nations, United States capital has been instrumental in the establishment of economies largely oriented toward Europe.

In Argentina, growing investment opportunities have attracted an increasing amount of United States capital despite continued Argentine dependence upon European markets and trade. Multilateral trade involving Argentina, Europe, and the United States has facilitated the continuance of this apparently anomalous situation. In contrast to a 3

[28] See Appendix, Table 31, p. 423.

billion dollar total for European investors in Argentina, United States investment in that nation has been relatively small. It has been disproportionately large when contrasted with United States–Argentine trade, however, and until 1930 it grew rather notably. United States investment in Argentina aggregated but $40,000,000 in 1913, this total increasing to $611,000,000 in 1929. By 1927 the United States had passed France as the second ranking foreign investor in Argentina, although Great Britain was still predominant.[24] By 1940, United States direct investment in Argentina was $387,945,000, and portfolio investment at the end of 1940 was $191,000,000. Note the decline of $32,055,000 in United States investment in Argentina over the 1929–1940 period. This decrease, of course, was in part merely a manifestation of the ravages of the great economic depression. Significantly, however, United States investment in Argentina from 1930 through 1933 declined more rapidly and extensively than the investment of any other foreign investor. Indeed, the investment totals of most of the European investors actually increased during that period.

The functional composition of United States direct investment in Latin America is distinctly colonial. Most of these investments have been designed to exploit raw material resources, although other types of outlays have come to be increasingly important.[25]

United States direct investment in Latin America in 1940 aggregated $2,771,000,000.[26] The various fields of investment absorbed the following shares of this total: public utilities and transportation, $962,000,000; mining and smelting, $512,000,000; petroleum, $572,000,000; agriculture, $359,000,000; manufacturing, $210,000,000; distribution, $82,000,000; and miscellaneous, $74,000,000. These figures give some conception of the actual sums involved, but percentages are probably more enlightening. Public utilities and transportation claimed 34.7 per cent of United States direct investment in 1940. Other fields of investment ranked in this order: petroleum, 20.6 per cent; mining and smelting, 18.5 per cent; agriculture, 13 per cent; manufacturing, 7.6 per cent;

[24] Vernon Phelps, *loc. cit.*

[25] For an analysis along functional lines of United States investment in Latin America, see Cleona Lewis, *America's Stake in International Investment.*

[26] The following statistical survey of the functional composition of United States direct investment in Latin America is taken largely from U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 20*, pp. 12–15, 20–26, as well as *Economic Series 1*, pp. 12–15, 18–25.

distribution, 2.9 per cent; and miscellaneous, 2.7 per cent. These percentages reveal sharp changes that have occurred between 1936 and 1940. During that period, public utilities and transportation, petroleum, and manufacturing gained proportionate importance. In 1936, petroleum had ranked third, rather than second, with but 15.9 per cent of total investment. Contrariwise, mining and smelting, agriculture, and distribution became somewhat less significant proportionately, with the first of these categories slumping from 24.8 to 18.5 per cent. Capital distributions, write-downs, and exchange depreciation, especially in Chile, Mexico, and Peru, have been largely responsible for this decline.

Although the United States has invested heavily in Latin American public utility securities, this type of investment has not been so dominant as with Great Britain. Furthermore, United States investment has been spread more widely over a number of extractive fields. It is significant that the three fields of investment which are predominantly devoted to exploiting raw materials—mining, petroleum, and agriculture—constituted 52 per cent of United States direct investment in Latin America during 1940. In contrast, United States direct investments in the entire world do not thus feature these three fields, this global percentage being but 36.

United States investment in Latin American mining and smelting has long assumed impressive proportions. In 1934, American-controlled mines were said to produce all the asphalt, bauxite, and vanadium mined in South America.[27] These mines also produced nearly all the iron ore, about nine-tenths of the copper, seven-tenths of the silver, two-thirds of the zinc, over one-half of the petroleum, about one-half of the manganese and platinum, over one-third of the lead, one-third of the gold, and one-tenth of the tin. In addition, these mines produced "a considerable part of the coal" and very large quantities of nitrates and other minerals. Of these United States-controlled minerals, the most important in terms of value were copper and petroleum. Although the process of nationalization and strict regulation has encroached slightly upon foreign ownership of Latin American mines, United States interests presumably continue to dominate much of the mineral production of this vast area.

[27] The estimates in this paragraph are taken from H. F. Bain and T. T Read, *Ores and Industry in South America*, p. 346.

With $572,000,000 of the United States total foreign investment in petroleum ($1,277,000,000) centered in Latin America, this area in 1940 absorbed the largest single share of our petroleum investment abroad.[28] The decline in the value of the Mexican properties, coupled with the marked increase in United States petroleum investment in other areas, markedly reduced the relative scope of this Latin American investment over the 1929–1936 period. This trend has been largely checked since 1936, despite the expropriation of Mexican oil investments and the further United States oil expansion and investment in Asia.

Of the $432,000,000 in United States capital invested in foreign agriculture, $359,000,000 was in Latin America in 1940.[29] Most of the $319,000,000 invested in 1940 in sugar plantations and centrals was and is in the West Indies and Mexico. The bulk of the $45,000,000 United States foreign direct investment in producing bananas and other fruits remains in Central America, Colombia, and the West Indies.

About three-fifths of United States investment in public utilities and transportation abroad centered in Latin America as of 1940.[30] Railroad investments are largely in Cuba, Mexico, and Central America, and nearly every Latin American nation is included in the public utilities list. The majority of these public utility investments are in electric and gas companies.

Latin American manufacturing investments are not large compared to such United States investments elsewhere in the world.[31] Argentina, Brazil, and Cuba were the only nations in 1940 in which such United States investment was appreciable, although Mexico, Chile, and Uruguay also attracted some of her capital in this field. By 1940, Latin America had attracted but $210,000,000 investment in manufacturing, as contrasted with $636,000,000 for Canada alone and $1,618,000,000 for the entire world.

The rather extensive decline from the 1929 total of $231,000,000 United States investment in Latin American manufacturing was due

[28] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 20* p. 24.

[29] *Ibid.*, pp. 24–25.

[30] *Ibid.*, pp. 23–24.

[31] *Ibid.*, pp. 21–23. For a comprehensive study of United States branch factories in Latin America, especially in Argentina, Brazil, Chile, and Uruguay, see D. M. Phelps, *Migration of Industry to South America.*

in large part to technical differences in the values used in the 1929 and 1940 studies. Such differences particularly influenced the foodstuffs group. The actual increase in the number of factories in Latin America built with United States capital was relatively slight during the 1929–1936 period, but increased in the next few years.

There were United States investments in 238 Latin American manufacturing enterprises in 1940. In terms of value, the various types of manufacturing investments by the United States in Latin America ranked in this order: foodstuffs (principally meat-packing), chemicals, miscellaneous, textiles, automotive, electrical, rubber, machinery, metal products, and lumber. The United States investment in foodstuffs equaled the next three manufacturing investments in the list combined.

Of the United States investment in foreign distribution and selling, aggregating some $522,000,000 as of 1940, over $82,000,000 was concentrated in Latin America.[32] This area was more important as a locale for wholesaling than for retailing investment.

Latin America also claimed substantial portions of United States miscellaneous investment in this year, especially in finance, insurance, motion pictures, real estate, and ocean shipping.[33]

The various types of United States direct investment are found in varying proportions in the different regions of Latin America, as of 1940.

In United States mining and smelting investment in Latin America, the West Coast countries of South America accounted for 58 per cent and the Caribbean area received 36 per cent.[34] Chile dominated this field, absorbing well over half of the United States total mining and smelting investment in Latin America. Mexico and Peru ranked behind Chile, these three nations taking over nine-tenths of the total United States investment in this Latin American industry.

[32] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series* 20, p. 25.

[33] *Ibid.*

[34] These percentages are derived from statistics in *ibid.*, p. 13. Unfortunately, functional composition of investment in many countries is obscured by lumping a number of categories under miscellaneous. Hence, in many cases the geographic percentages do not add up to 100, since these country's totals are included in the functional totals for each type of investment but not under the country. Thus, a small percentage in each case is not allocated to any particular nation or region.

In United States petroleum investment south of the Rio Grande, the Caribbean area absorbed 77 per cent and Brazil 6 per cent. Venezuela received over two-fifths of the total and, together with Mexico, Colombia, Brazil, and certain West Indies islands, accounted for about four-fifths of the total.

In United States agricultural investment in Latin America, the Caribbean area, with its huge fruit and sugar plantations, claimed 97 per cent of the total. The remainder of Latin America claimed the other 3 per cent, in uncertain specific proportions. Cuba alone accounted for about two-thirds of United States agricultural investment in Latin America.

In United States public utilities and transportation investment in Latin America, the Caribbean absorbed 51 per cent; the East Coast of South America, 23 per cent; the West Coast of South America, 14 per cent; and Brazil, 12 per cent. Cuba, Argentina, Chile, Mexico, and Brazil ranked in that order, these nations accounting for over four-fifths of aggregate United States investment in Latin American public utilities and transportation.

United States manufacturing enterprises centered in the East Coast nations of South America, this area accounting for 40 per cent of the Latin American total. Brazil absorbed 33 per cent of the total for Latin America, the Caribbean region took 18 per cent, and the West Coast countries of South America received but 6 per cent. Argentina, Brazil, and Cuba ranked in that order, together accounting for over four-fifths of the total.

Much of the United States direct investment in Argentina has been in manufacturing.[85] A number of large concerns operate branch plants in Argentina, including Swift, Armour, General Electric, du Pont, Ford, General Motors, and Standard Oil. The outstanding industrial investment since 1928, however, has been in public utilities, especially by the American and Foreign Power Company and the International Telephone and Telegraph Company.

United States investment in Latin American marketing and distribution was rather evenly spread in 1940, the regions ranking in this order: Caribbean, 34 per cent; East Coast of South America, 33 per

[85] For a description of United States branch plants in Argentina, see D. M. Phelps, *op. cit.*, and Clarence Haring, *op. cit.*, pp. 50–51.

cent; West Coast of South America, 9 per cent; Brazil, 22 per cent. Argentina, Brazil, Cuba, Mexico, and Chile ranked in that order, aggregating over four-fifths of the total.

It is impossible to break down United States miscellaneous investment in Latin America by regions, since the available statistics are not amenable to such cataloguing. The West Indies took 44 per cent; Central America and Mexico absorbed 36 per cent; and South America received 20 per cent.

As is apparent from investment statistics, values of United States direct investments in Latin America slumped drastically in certain fields over the 1929–1940 period. This slump affected agricultural, mining, and railway investments with especial severity.[86] The prolonged world depression, the resultant drop in prices and foreign trade, occasional expropriation, hostile regulation, and the severe transfer problem conspired almost to wipe out foreign investment in certain spheres. This transfer difficulty, or exchange shortage, made return of earnings and investment very awkward. It is true that United States investors did create 124 new investments in Latin America during the 1930–1936 period. This figure is in sharp contrast, however, to the 342 new investments established in Canada alone during that era, as well as the 198 new investments created in Europe. Over half of these new investments in Latin America were in manufacturing and distribution. Simultaneously with their establishment, 142 other United States investments south of the Rio Grande were disposed of during the 1930–1936 period. The effect of this flux in United States direct investments in Latin America was a net decline in both their number and their value.

In any functional analysis of United States investment in Latin America, portfolio investments must be included. Large-scale United States investment in Latin American portfolio securities did not occur until after World War I. Indeed, no Latin American portfolio issues had been floated in the United States until the end of 1897. At the end of 1914, United States investors absorbed Latin American securities aggregating $367,000,000, most of which was floated by Mexico and Cuba. By 1914, only $42,000,000 in dollar loans had been extended

[86] Most of this paragraph is based upon U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 1*, pp. 26–34.

to South America.[37] During the pre-World War I period, European investors carried most of the financing load for Latin American governments.

During the 1914–1919 period, United States investors plunged another $100,000,000 into Latin American government bonds or government-controlled or guaranteed securities. From 1920 through 1930, however, United States portfolio investment in Latin America reached fabulous proportions. In that period, over $100,000,000 in Latin American government (or government guaranteed) and corporate issues were offered annually in the United States.[38] The 1926, 1927, and 1928 annual offerings reached $368,000,000, $340,000,000, and $330,000,000, respectively.[39]

In 1940, United States portfolio investment in Latin America aggregated $393,000,000. Although this total represented a notable slump from the 1930 figure, United States portfolio investments to the south remained appreciable.

In view of speculation concerning possible wartime and especially post-war investment outlets in Latin America, the earning records of foreign investments in Latin America should be scrutinized. In judging these yields it must be recalled, of course, that varying but very substantial risk elements exist in most of these investments.[40]

Earnings and Default on British Investment in Latin America

Apparently British capital in Latin America has been yielding a dwindling return since the halcyon years prior to and including 1913.[41] In that pre-war year, British investors received 4.7 per cent interest on capital invested in Latin America, and but 7 per cent of the total investment brought no income at all. In 1939, just before the outbreak

[37] Otto Kreuser, "Some Inter-American Financial Problems," *Annals of American Academy*, 204:166, June, 1939.

[38] William Scroggs, "The American Investment in Latin America," *Foreign Affairs*, 10:503, April, 1932.

[39] *Ibid.*

[40] In D. M. Phelps, *op. cit.*, p. 292, the author states that in view of these risks, an annual return of around 15 per cent on invested capital is none too much.

[41] The following analysis of returns on British investment is based upon statistics in *Inter-American Statistical Yearbook, 1940*, p. 475.

of World War II, the average interest paid on British investment in Latin America had dwindled to 1.6 per cent, 62 per cent of the total investment yielding no return. The intervening twenty-six-year period had obviously witnessed a steady deterioration in the position of the British investor in this area. He not only found himself compelled to accept a very moderate rate of interest in view of the risk, but he also found that the bulk of his funds had ceased to bring in any return.

The British investor early discovered that certain types of investment, such as banking and shipping, yielded higher rates of return than did others. In 1913, for example, return on various categories of British investment had this range: banks and shipping, 10.1 per cent; miscellaneous, 5.5 per cent; railways, 4.2 per cent; and government bonds, 4.4 per cent. Apparently funds invested in banking, shipping, and miscellaneous investments yielded more than the average return of 4.7 per cent, and funds in public utilities or government securities yielded less than the average. Railway securities, with 15 per cent of the issues in interest default in 1913, had the largest proportion of issues paying no interest at all. Thus, railway issues absorbed the largest single portion of British investment (42 per cent), yielded the lowest average interest (4.4 per cent), and had the worst record of interest default. In 1913, the other types of British investments ranked as follows in interest default: miscellaneous, 9 per cent in default; government bonds, 2 per cent; and banking and shipping, 0.6 per cent. Thus, railway and miscellaneous investments had a less favorable record of default than did the total British investment in Latin America, whereas other types of securities had a very favorable record as contrasted with average experience.

Just as total investments revealed a decline in average interest and an increase in interest default over the 1913–1939 period, each category of investment also revealed the same trend. The various types of investment differed, however, in the extent and significance of this declining yield and increasing default. Banking and shipping securities showed the greatest absolute decline in average interest, this decrease being from 10.1 per cent in 1913 to 3.6 per cent in 1939. It remained, however, as the highest-yielding type of British investment. Since this type of security, however, accounted for but 2 per cent of total investment, this decline did not affect British investors very drastically. Other, miscellaneous securities also experienced a decline in yield from

5.5 per cent in 1913 to 2.9 per cent in 1939, constituting the second ranking interest-yielding investment in both years. Although this type of security accounted for 27 per cent of total investment in 1939, this decline did not hit as heavily as the decline in the yield of railway and government securities. Government bond yields declined from 4.4 per cent in 1913 to 1.2 per cent in 1939, this marked decrease affecting 29 per cent of total British investment in the latter year. In 1939, banking, shipping, and miscellaneous investments yielded more than the overall average of 1.6 per cent, and railway and government securities had below-par records.

Various types of securities were also drastically divergent in their record of interest default during the 1913–1939 period. Such default in banking and shipping investments increased from 0.6 per cent in 1913 to 29 per cent in 1939; miscellaneous investments from 9 to 48 per cent; government bonds from 2 to 65 per cent; and railway securities from 15 to 69 per cent. In 1939, railway and government securities had a below-average record of default, whereas miscellaneous and other types of investments had a better than average record. The greatest change in status during the 1913–1939 period touched government bonds, which shifted from having almost the best record of default in 1913 to having almost the worst in 1939. Apparently British investors were caught in the same vortex of over-issue, governmental insecurity, and world depression that overwhelmed United States investors in Latin American government bonds.

The yield of British capital also varies sharply from nation to nation in Latin America. In 1939, this yield was exactly nil in Honduras and El Salvador, while it was 7.27 per cent in Bolivia and 7.35 in Venezuela. The proportion of total investment that was in default in 1939 ranged from 100 per cent in Honduras and El Salvador to 16 per cent in Bolivia and nil in Nicaragua.

Earnings and Default on United States Investment in Latin America

Statistics concerning the yields of United States direct investment in Latin America are rather fragmentary but nevertheless revealing. In 1935 and 1936, Latin America trailed well behind Asia, Canada, and

Europe in average yields.[42] Presumably, the lands to the south yielded smaller returns than the world averages of 5.4 per cent and 5.2 per cent, for the respective years. In those years, United States investment in the West Indies continued to reveal the low earning power of the sugar companies.

By 1938, United States direct investments in Latin America were yielding about 6 per cent, which was slightly above the average return on United States direct investments abroad.[43] In 1939, an authority on United States foreign investment stated: "American direct investments in Latin America have, by and large, yielded a reasonable return."[44]

On the basis of representative samples, estimates of earnings of United States direct investment in various Latin American countries as of 1940 have been made. The average rate of return for Cuba was 2.5 per cent, in contrast to 2.7 per cent in 1938 and 1939.[45] In Mexico, the average rate of return was 3.9 per cent, higher than the 3.1 per cent of 1939 but lower than the 9.2 per cent of 1938, which was the result of an extraordinary distribution, in partial liquidation, by a mining company. In Argentina, the average rate was 4.1 per cent, identical with the 1938 rate but above the 3.4 per cent of 1939. In Brazil, the average rate was 3.3 per cent, as contrasted to 3.8 per cent in 1938 and 2.5 per cent in 1939. The rate in Chile was high, being 8.2 per cent, as against 7.5 per cent in 1938 and 6.5 per cent in 1939. In Peru, the rate reached the impressive level of 17.1 per cent, similar to the 18.3 per cent of 1938 and the 15.9 per cent of 1939. In Venezuela, the average rate was 7.6 per cent, slightly lower than the 8.4 per cent of 1939 but well below the 15.6 per cent of 1938.

This variation in rates can generally be explained functionally. Public utilities constitute 42 per cent of the total investment in Cuba, 57 per cent in Argentina, and 47 per cent in Brazil, which partially ex-

[42] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 1*, pp. 28–29.

[43] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 5*, pp. 45–47.

[44] Max Winkler, "America Looks Southward," *Annals of American Academy*, 204:36, July, 1939.

[45] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 20*, p. 33.

plains the low average yield in these countries. The low earning power of Cuban sugar companies, evident throughout the 1930's, depressed the average yield in Cuba in 1940, although the situation was said to have changed in 1941. The high yields in Chile and Peru reflect mining properties, which have often been written down by large depletion charges. Although many petroleum properties in Venezuela were not yet producing by 1940, the extreme profitability of producing fields rendered the overall Venezuelan yield very impressive.

The most detailed statistics of the yields of United States direct investment in Latin America relate to branch plants, especially in Argentina.[46] Even these figures are fragmentary, consist in part of estimates, are often understated, and do not include the vital transfer factor. Nevertheless, fairly complete data are available for companies operating in Argentina over the 1923–1932 period. Profits of these plants ranged from 0.35 per cent in 1925 to 19.4 per cent in 1923, averaging 10.5 per cent for the entire decade. For meat-packing plants, the profit and loss ranged from a loss in 1925 to a gain of 20.13 per cent in 1923, the decade average being 9.1 per cent. Since and including 1928, profits for half a decade averaged 11.5 per cent. Obviously, United States manufacturing investments in Argentina have been reasonably profitable. Perhaps in view of the risk involved, the profits may not be enormous, but they are apparently substantial measured by any criterion.

Earning statistics in other United States branch plants in Latin America are much less satisfactory. It is known, however, that such plants in Chile were quite profitable prior to 1930 but not after that year. In Uruguay, United States branch plants have had rather persistent difficulty in achieving acceptable profits. Elsewhere, available profit statistics are so incomplete as scarcely to repay analysis.

In addition to meat packing and other branch plants in Argentina, there are a number of other specific types of investments in Latin America that have yielded substantial returns to United States investors. These returns are especially adequate when contrasted with the small amounts of capital that were originally placed in these investments. These profitable fields have included copper in Chile; silver and copper in Peru; oil in Colombia, Peru, and Venezuela; public utilities in

[46] The following Argentine figures are from D. M. Phelps, *op. cit.*, pp. 290–301.

Argentina, Cuba, and Brazil; and fruits in Central America.[47] Observers of United States investment in these spheres claim that yields not only were satisfactory but also compared very favorably with results obtained from similar investments at home. Yields since 1930, however, have been somewhat adverse in public utilities and fruits. In 1938, a year which is cited because it was the last full year before World War II, mining and petroleum were reported to be the most profitable on the basis of extensive sampling of United States direct investment.[48] Investment in these prolific fields accounted for much of the large receipts from South America in that and succeeding years. These large returns continued despite diminished returns from copper mining as contrasted with the previous year. Petroleum continued to pay large dividends, giving the highest average return of any type of investment. Although Mexican investments were imperiled by expropriation, South American petroleum properties were very lucrative. Public utilities, however, yielded slightly less income in 1938 than in 1937, and returns were not especially large in either year. Official statistics did not break down return for each type of investment by continents or areas, but average rates probably apply rather well. In such fields as mining and petroleum, Latin American investments are presumably above average, but they range slightly below in certain other spheres. For all United States direct investment abroad in that year, however, it was concluded that petroleum yielded 15.7 per cent; mining and smelting, 12.3 per cent; distribution (largely retail), 9.8 per cent; manufacturing, 5.6 per cent; and public utilities, 3.2 per cent.

The foregoing rates of return should not, however, be considered according to the same criteria employed in judging a domestic investment. The element of risk is present in large measure, stemming in part from default, expropriation, restrictive legislation, and other superficial factors. More basically, investment in Latin America has been hazardous because of the emphasis upon raw-material industries, whose products have usually been sold in world markets, subject to world prices, and affected by world depressions and trade restrictions. With virtually no local market as a backlog, such investment is subject to

[47] Max Winkler, "America Looks Southward," *Annals of American Academy*, 204:36, July, 1939.

[48] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series* 5, pp. 45–47.

extreme fluctuations in earning power. If the 1938 rates were discounted to include earnings in depression years, the mortality rates for investment, and similar factors, they would probably be quite modest.

Case studies of individual United States corporations and their investment experience in Latin America would indicate that such companies have had difficulty in finding the anticipated "bonanzas." Two companies, the United Fruit Company of Boston and W. R. Grace and Company, serve as admirable illustrations.

The United Fruit Company has built a fabulous empire in the Caribbean, with extensive holdings in bananas and ships.[49] The company has expanded its properties in a region which is strongly bound to the United States, and where expropriation has been forestalled on occasion by force of arms. The market is near at hand, and many other factors are extremely favorable. The records reveal that this corporation has made a great deal of money, but they also indicate that risks, bad guesses, and heavy losses have afflicted even this company. To be sure, in 1932, at the very depth of the depression, the United Fruit Company had a net income of slightly over $5,707,000. This earning power had dwindled from $17,800,000 in 1929, which indicates a terrific contraction in income. Part of this decline represented a dwindling in banana revenues, but it also manifested huge losses in sugar, painful experience with cacao, and a shipping line that could break even only through its control over company banana shipments. Few shipping lines operating in the Western Hemisphere have been able to keep going without either a government subsidy or a quasi-monopolistic position of this type.

During World War II, United Fruit Company boats have been utilized all over the world for war purposes, and the "Great White Fleet" no longer carries bananas and passengers. Since United Fruit Company bananas have long been transported by sea, apparently World War II has meant further contraction of income for the corporation. This development, plus the notorious tendency of banana cultivation to wear out land and require periodic re-investment on a large scale, would tend to reduce long-term earning figures of the company to a relatively modest scale.

The W. R. Grace Company, or "Casa Grace," enjoys the same dominant position on the West Coast of South America that the United

[49] "United Fruit, I, II, and III," *Fortune*, 7:26–30 ff., 31–39 ff., and 123–127, March, 1933.

Fruit Company has in the Caribbean.[50] This corporation has huge holdings, at one time encompassing forty-three companies in many spheres and involving an investment of $60,000,000. Yet a review of this company's activities reveals that, when losses, bad years, and risk are included, the company has perhaps earned more prestige than profits. An analysis of the earning record of the company is enlightening in this respect.

Over the 1916–1933 period, which includes war years, peace years, good years, and bad years, the company earned an average gross profit of $4,500,000 per year on its $60,000,000 investment. After taxes, surplus, and other items were adjusted, slightly less than $3,000,000 per year remained to distribute to the stockholders. Even this 6 per cent return was possible only because the corporation, with its steamship lines, textile mills, sugar properties, coffee plantations, chain stores, banks, airlines, mines, wool, and vineyards, operated in so many spheres that good guesses and risks counterbalanced bad ones. Industrial enterprises entailing an investment of $15,000,000 yielded average gross profits of $1,900,000 per year. Trading companies, with an investment of $30,000,000, yielded average gross profits of $675,000. The Grace Steamship Company earned $2,000,000 gross profit per year, but most of this came from the mail subsidy. In fact, over the 1928–1933 period, the gross profits on the steamship lines were less than the subsidy. The passenger lines have lost money consistently, although the freight lines have made money on occasion. Although the Grace lines made $36,000,000 gross profit between 1916 and 1933, $27,000,000 of this was registered between 1916 and 1920. The gross income of $400,000 in 1928 was less than 3 per cent on the shipping investment.

Most of these figures, terminating in 1933, are more impressive than those applicable to the 1930–1939 decade. In the mid-1930's, when the depression was lightening a little, W. R. Grace was earning about $1,500,000 net profit on its $60,000,000 investment. Although inflated ship earnings during World War II, coupled with increased earnings in the Grace nitrate, tin, and sugar properties, have doubtless improved this record, in the long-run Grace has not been spectacularly profitable.

The foregoing case studies should not be interpreted as disparaging investment opportunities in Latin America. They do reveal, however, that earnings vary drastically between various spheres and locales, and

[50] "Casa Grace," *Fortune*, 12:94–101, 157–158, 161–164, December, 1935.

that net rates of return over long periods are not dissimilar from rates in the United States.

Statistics relative to the earnings of United States portfolio investments in Latin America are almost wholly unavailable. One overall estimate has been released, indicating that interest yields in the majority of United States portfolio investments in Latin America that are not in default have been very slight. In 1938, these Latin American yields averaged 1.4 per cent, which was almost 2 per cent less than the average of 3.3 per cent on total United States portfolio investments abroad.[51] By 1940, however, the average rate of return on Latin American issues had risen to but 2.3 per cent of par, although many of these securities carried a vastly higher coupon rate.[52]

Expropriation of United States direct investments in Latin America by the various national governments has been relatively rare. Although many of these investments have yielded little or no income, actual confiscation has occurred only in isolated cases, such as the social, political, and economic revolution in Mexico,[53] and the various economic crises of Bolivia. This relative rarity of expropriation contrasts sharply with the frequency of governmental repudiation or default on bonds and portfolio securities. Repudiation or default on a portfolio security is a passive measure and is often the line of least resistance. Actual expropriation of direct investments, however, is a positive and drastic action that calls for a direct assertion of sovereignty by the confiscating nation.[54] Such drastic action was scarcely feasible during most of the pre-World War I era, when most Latin American nations were in the colonial state and operated as economic satellites of the great powers. Although the post-World War I resurgence of national self-consciousness did result in actual confiscation, this upsurge did not render such action the rule. Mexico, Bolivia, and even Chile have confiscated foreign properties, but these nations remain in the minority. It is true, of course, that hostile mining and other regulatory legislation, internal

[51] U. S. Bureau of Foreign and Domestic Commerce, *Status of U. S. Investment in Foreign Dollar Bonds, End of 1939*, by Paul Dickens, Tables I, V.

[52] Sara Bielouss, "U. S. Investments in Foreign Dollar Bonds, End of 1941," *Foreign Commerce Weekly*, 8:8, September 26, 1942.

[53] For an analysis of this upheaval and the problem of Mexican expropriation, see the March, 1940, issue of *Annals of American Academy*, "Mexico."

[54] This line of demarcation has been capably drawn in Willy Feuerlein and Elizabeth Hannan, *Dollars in Latin America*, pp. 3–5.

and external taxes, and exchange control have virtually nullified many investments not formally confiscated. These matters will be taken up in the subsequent chapters.

United States investors in Latin American government bonds and other portfolio securities, however, have had very painful experience with default.[55]

During the 1920's, the United States had little taste of such default, since times were prosperous and most of the issues had just been floated. Beginning in many areas of Latin America in 1931,[56] default soon spread throughout much of this hemisphere and swept over Europe. Since many of the Latin American nations discovered that their public finance had been so intimately tied to customs duties that a shrinkage in trade drastically curtailed revenues, default accompanied the disastrous slump in world commerce. A more detailed analysis of the origins and underlying causes of this wave of default will be attempted in a later chapter.

In the decade from 1930 to 1940, redemption and especially repatriation of defaulted issues reduced United States portfolio investment in Latin America by more than $600,000,000.[57] As of December 31, 1940, 64 per cent of United States portfolio investments in Latin America were in complete or partial default of interest, or principal.[58] In concrete terms, $638,000,000 was in default and the remaining $355,000,000 not in default. Of the investments not in default, original terms remained unchanged in issues aggregating $207,000,000, while

[55] Default is used in the sense explained by Paul Dickens, *op. cit.*, p. 5. "By interest default is meant the failure of the borrower to pay interest in conformity with the provisions of the bond indenture—the gold clause excepted. Negotiations often result in the lowering of the contract rate of interest, the cancellation of past-due coupons, or the issuance of income bonds in exchange for the original bonds. When such revisions are accepted by the bondholders and adhered to by the debtors, the contracts are considered as having been amended and the issues are treated as no longer in default."

[56] See William Scroggs, "Foreign Treatment of American Creditors," *Foreign Affairs*, 14:345–347, January, 1936.

[57] Paul Dickens, *op. cit.*, p. 3. 1941 default statistics, which are almost identical, can be found in Sara Bielouss, *op. cit.*, pp. 8, 17.

[58] This and following estimates of Latin American defaults in United States holdings of dollar bonds at the end of 1940 are taken from *ibid.*, pp. 3–5. These figures are chosen in preference to the somewhat higher percentages of default claimed in Foreign Bondholders Protective Council, Inc., *Annual Report 1939*, pp. 5–6.

terms were adjusted in issues with a par value of $148,000,000. Of the $638,000,000 in default, $32,000,000 was in partial default and the remaining $606,000,000 was in complete default.

The various areas in Latin America differ sharply as to the relative proportion of issues now in default. These marked divergencies assume considerable significance in any analysis of the future outlets, as well as probable impediments, for the movement of foreign investment in Latin America. In the Caribbean region, 63 per cent of the issues was in partial or complete default at the end of 1940, and the terms of over half the issues not in default had been adjusted. In Brazil, 96 per cent of all issues was in total default, although these issues not in default retained their original terms. In the West Coast region of South America, 84 per cent of the issues was in complete default, almost half of those issues not in default having altered terms. The East Coast nations of South America, notably Argentina, stood out in sharp contrast. Only 4 per cent of the issues of this area was in default at the end of 1940, although almost two-fifths of the securities not in default had been adjusted in terms.

Individual nations revealed equally striking divergencies in defaults. Such nations as Costa Rica, El Salvador, Bolivia, and Peru were in complete default at the end of 1940. Other countries, such as Brazil, Colombia, and Chile, were more than 80 per cent in default, and all but five nations were in 50 per cent default or over. These five exceptions included the Dominican Republic, Haiti, Argentina, Uruguay, and Cuba. The first two of the aforementioned nations had no defaults, and Argentina had but 3 per cent of her issues in default.

The 64 per cent of United States portfolio investment in Latin America that is in default contrasts with the 31 per cent of total United States portfolio investment abroad that is also in default. Latin America has the worst record of default on United States portfolio investment displayed by any comparable area in the world. Europe, with 59 per cent of United States portfolio investment in default, ranks just behind. If war debts were included, of course, Europe's record would be much worse than that of Latin America. Contrariwise, but 3 per cent of United States portfolio investments in Canada and Newfoundland is in default. Asia has had an 8 per cent default record, and Oceania and Africa have not defaulted on any existent issue.

Protagonists of United States investment to the south claim that

such default statistics exaggerate the actual situation. If all United States direct and portfolio investment in Latin America were lumped together, only about one-eighth of this total is in default.[59] This observation, of course, does not include direct investments that have failed to yield returns or that have, in a few instances, been expropriated. Again, it is true that bonds of many United States municipalities and business corporations have not been immune to defaults since the onset of the post-1929 depression. The investor has nowhere been completely certain as to the size and the certainty of yield; yet it is scarcely likely that 64 per cent of United States municipal and corporation bonds were ever in default during the 1930's.

The record of default alone is not adequate to reveal completely the current status of United States portfolio investment in Latin America. A study of the market values of foreign dollar bonds, as of December 31, 1940,[60] is enlightening in this respect. This analysis reveals that the market value of most Latin American issues held in the United States had dwindled to far below par value, reflecting uncertain earnings, default, and an uncertain future.

In the West Indies, the 1940 market value of all issues averaged 59 per cent of par value. Market value stood at 50 per cent of par on those issues in default and 61 per cent of par on the issues not in default. In Central America, market value of securities was but 40 per cent of par. This value was but 32 per cent of par for those issues in default as to interest but it was 74 per cent for bonds not in default. In South America, the market value of all issues averaged 27 per cent of par value. This ratio stood at 14 per cent for those issues in interest default and 57 per cent for securities not in default.

The 1930's witnessed a marked slump in market values throughout the entire world, this decline affecting domestic and foreign-held securities alike. Latin American securities held by the United States, however, seem to have been hit worse than those issued in the remainder of the world. The market value of total United States dollar bond holdings abroad at the end of 1940 averaged 57 per cent of par. Although this was about the same percentage as that claimed by the West Indies, it was far higher than the figure for the remainder of Latin America.

[59] Max Winkler, "America Looks Southward," *Annals of American Academy*, 204:35, July, 1939.

[60] Paul Dickens, *op. cit.*, p. 5.

Only Europe had a lower relative market value than South America, the European percentage being 25 per cent.

Conclusion

Foreign investment in Latin America has reflected the stage of economic development and extreme reliance upon raw material industries. These outlays have been largely direct, being invested in establishment and operation of properties producing commodities, transportation, and other services. The volume of portfolio investments grew in spectacular fashion during the 1920–1929 decade, but never approached that of direct investments. These direct investments have been predominantly colonial, featuring mines, smelters, plantations, and similar complementary ventures. Whereas most of the leading commercial nations of the world have invested in Latin America, the United Kingdom and the United States have been the ranking investors. The former nation dominated until the 1930–1939 decade, when the two countries assumed roughly equivalent stature. World War II, however, has apparently disturbed this balance in favor of the United States. The geographical distribution of both British and United States investment is roughly parallel to the distribution of trade, although certain divergencies exist. The composition of investment by the two nations is also somewhat similar, although railway and other public utility securities are more prominent in the case of the United Kingdom. United States investment has been concentrated in mining, smelting, agriculture, and branch factories, in addition to public utilities and other spheres. Earnings on the bulk of British and United States investments have declined during the post-World War I period, although few generalizations on this score can be hazarded. Investments in some fields and areas have remained very lucrative; others have proved exceedingly vulnerable to troubled times. Default on both British and United States investments has increased enormously since World War I, the bulk of this default occurring early in the post-1929 depression. Again, default has been rampant in certain areas and relatively rare in others. Expropriation has been far less common than default, being a positive rather than a passive act. Such cases of expropriation have been sufficiently spectacular as to form an exaggerated impression of the extent of the phenomenon. Domestic legislation regulating and circumscribing investment, however, has often been tantamount to expropriation.

Chapter 6

LATIN AMERICAN OUTLETS FOR INVESTMENT

THIS CHAPTER is concerned with some of the spheres or areas into which large-scale capital investment might be channeled. Prior to World War II, the obstacles to outlays in certain of these fields seemed almost insuperable. Even with the development projects that have had a mushroom growth in recent years, many of these impediments remain significant. An analysis of these investment problems, however, can best be attempted after a frame of reference has been established. Hence this chapter will examine some of the industries and areas which might attract investment. Although there are few old-style "bonanzas," few streets paved with gold, remaining in Latin America, great spheres of potential investment do exist. This chapter will describe and analyze the scope and nature of certain of these spheres, and the following chapter will deal with some of the impediments which must be removed before actual investment could be made.

Three popular fallacies concerning the future of investment in Latin America should be exploded at the outset. First, Latin America is not new and raw. It is a very old land, with native civilizations dating back to antiquity and Spanish occupation for centuries. Many of the now empty regions have already been explored, exploited, and abandoned, although under different technologies. The obvious, accessible riches have been largely exhausted, as group after group have attempted to turn to quick profits the obvious resources. Many predominantly agricultural areas have found the fertility of their soils virtually exhausted by centuries of cultivation. Huge stands of mahogany and other forest resources have been devastated to produce charcoal and immediately useful products. Latin America is new only in that she has yet to develop the type of heavy industry that has come to characterize the United States and much of Europe. In that sense, however, such ancient lands as India and China are new, raw nations.

Likewise, Latin America is not a lush, rich area in the conventional sense. Too many generations have seen opportunities for easy exploitation, enormous fortunes, and extraction of resources. The riches that remain in Latin America are not primarily the obvious, traditional resources—gold, silver, platinum, petroleum, etc.—although vast deposits of certain of these products remain. Even those nations abundantly blessed with mineral resources have not been rich insofar as the people's scale of living has been concerned. Mexico, with all her resources, has been a land of poverty since the days of Cortes, and "sweat and hunger have always been the producers of wealth."[1] Most of the nations of Latin America, however, do not possess the prodigious mineral resources of Mexico. Even if vast opportunities for procuring this easy form of wealth still existed, the political climate in Latin America would not allow such exploitation. There are riches in Latin America, but riches of a less obvious, less spectacular variety. These are prosaic riches, won by long-range investment, laborious effort, and cooperation.

The third and perhaps the most deceptive fallacy is that the analogy of the United States frontier can be applied *in toto*. Too often the ethnocentric assumption is made that Latin America will follow precisely the same course of economic development that has characterized this country. The phrase "another United States in the making" is very commonly applied to Latin America. Can this analogy, however, be applied without drastic qualifications? Although there may be some points of similarity, the differences between Latin America and the United States are enormous. Latin America is old, has divergent languages and culture patterns, as well as sharply contrasting topography, resources, and political structures. Significantly, in all of Latin America, there are now but four regions of frontier settlement not accompanied by a decline in the population nucleus or immigration from outside.[2] These include the highlands of Costa Rica, the highlands of Antioquia in Colombia, middle Chile, and the three southern states of Brazil. Thus, while the development of Latin America may parallel in some respects that of the United States, it cannot be assumed that the pattern will necessarily be identical.

[1] Federico Bach, "Distribution of Wealth in Mexico," *Annals of American Academy*, 208:70–77, March, 1940; also Chester Lloyd Jones, "Production of Wealth in Mexico," same issue, pp. 55–69.

[2] Preston James, *Latin America*, pp. 828–833.

This chapter will discuss investment potentialities in five major spheres: raw materials, fuels, light industry, heavy industry, and transportation. These broad categories will also be broken down into a number of more specific groupings.

Since the bulk of the investment outlays poured into Latin America during the past two centuries has been in raw material industries, this sphere furnishes a natural point of departure. What are the major opportunities for further investment in the raw material resources of Latin America? In order to furnish a basis for an ultimate answer to that question, this section of the chapter will consider agricultural and forest products, minerals, and strategic and critical materials.

Agricultural and Forest Products

Many of the great agricultural and forest industries of Latin America are apparently nearing the saturation point as far as further investment is concerned. Further enormous increases in the demand for Argentine corn, wheat, and meat, for example, are precluded by slackening world population growth. Many of the great staple products of Latin America, such as wheat, coffee, and cacao, are already in a chronic state of overproduction. In some agricultural industries, such as bananas, cultivation wears out the soil so rapidly that constant re-investment is needed. This can almost be classified as maintenance of capital rather than additional capital. The foregoing statements should not be interpreted as denying the possibility of further investment in the great staple industries already developed. Coffee, sugar, cacao, bananas and like products will long continue to be demanded in world markets. Such investment is not likely to be on an enormous scale, however, since most of these industries are relatively mature. Whereas further investment in transportation facilities might render these industries capable of competing in world markets on more favorable terms, such ancillary outlays will be considered in another connection.

Even some of the newer agricultural industries of Latin America are already plagued by world overproduction. Cotton production, for example, has been increasing very rapidly in Latin America. Over the 1920–1939 period, Latin American production tripled, although it still aggregated less than one-fourth of average yearly production in the

United States.[3] While the Brazilian output has increased with special rapidity, cotton is also produced in Peru, Argentina, Mexico, Colombia, Haiti, Paraguay, constituting the major export in two countries.[4] In 1942, special cotton seeds of high germinating power, good yield, and resistance to pests were shipped by the United States government to Ecuador.[5] Yet, during that year, the United States Department of Agriculture, through the Commodity Credit Corporation, agreed to absorb Peruvian surplus shipments of cotton for the duration of the war. The result of increased Latin American output is the creation of further production capacity in a world industry already overexpanded. The extent of Latin American competition with older cotton producers is evidenced by the fact that Latin America increased her acreage and production threefold over the period of 1923–1924 through 1935–1936.[6] During that same era, United States cotton acreage and production actually declined. Significantly, over half of this Latin American cotton was exported rather than consumed in local markets.

There are, however, many agricultural and forest products that are grown or could be grown in Latin America that are not now available in world markets. A word of caution, however, should be interjected at this point. Many exotic and hitherto inaccessible products have recently been publicized simply because they have been wartime substitutes for essential commodities. Large-scale expansion of such hemispheric industries on such a short-run basis of expediency is scarcely economic. This chapter is more profoundly concerned with those industries which are likely to be low-cost producers in the post-war world. Amortization of an agricultural investment, especially in the tropics, may require a very long time, vast organization and patience, and much capital, as Ford and others have discovered. Although any analysis of hitherto unexploited Latin American products contains an element of speculation, one must not be too much captivated by a queer name or

[3] Charles Barber, "Production of Cotton in Latin America," *Foreign Agriculture*, 3:375–392, September, 1939.

[4] U. S. Department of Agriculture, *Cotton: Selected Statistics Relating to Latin America and the United States, 1923–1940*, by Caroline Gries and Dorothy Ellis, January, 1941.

[5] "Experimental Cotton Cultivation in Ecuador," *Bulletin of Pan American Union*, 76:299, May, 1942.

[6] U. S. Department of Agriculture, *Cotton: Selected Statistics Relating to Latin America and the United States, 1923–1940*, by Caroline Gries and Dorothy Ellis, January, 1941, pp. 6–7, 8–9, 12–13.

glamorous potentialities. Latin America has proceeded on that shallow basis too long, and a sober, long-range, developmental point of view is desperately needed.

A vast number of complementary crops are grown in Latin America. Some of them are now cultivated wild; others are systematically developed and exported. Their potentialities as investment outlets vary markedly, but a brief description of the scope and nature of such products affords some perspective as to the possible scale of outlays.[7] Those agricultural products which fall within the strategic raw material category—such as coconuts, manila fiber, cinchona (quinine), rubber, and silk—will be analyzed later.

Rotenone-bearing crops, valuable for insecticidal purposes, grow widely in Latin America. Exports of such products to the United States have been increasing rapidly in recent years, although other insecticides still dominate the market. This product leaves no spray residue, as does lead arsenate, a fact of interest to United States farmers, who use more than $100,000,000 worth of insecticides a year. Vegetable oils, including babassu, cohune, copra, ben, and similar products, grow wild over very large areas.[8] They do not lend themselves to plantation cultivation, at least under existing knowledge and techniques. Industrial oils, such as castor, oiticica, and tung, grow over an area extending from Mexico to Brazil, and have been increasing noticeably in volume and importance. Essential oils, used for perfume, are also available. The possibilities of lemon grass, citronella, ilang-ilang, and vertivert production are being investigated in Puerto Rico. Several fibers, especially henequen, sisal, and pita, are being produced in the Caribbean area. Some of these substitute for jute or manila fiber, others for linen. Kapok is grown in small quantities and high quality in Ecuador, and presumably could be developed on a plantation basis. Vanilla production could be enlarged, Puerto Rico and Mexico being capable of meeting a much larger portion of hemispheric requirements. Tropical fruits, even aside from the staples now exported in large volume, can be produced in quantity. Such fruits might include

[7] The following description is largely derived from U. S. Department of Agriculture, *Inter-American Cooperation in Agriculture*, by E. N. Bressman, January 6, 1941. See also continuing articles concerning such products in *Agriculture in the Americas*.

[8] See also Pan American Union, *Commodity of Commerce Series* 5.

avocados, mangoes, chirimoyas, zapotes, and other exotic products. Tropical vegetables, many of which have never reached world markets, can also be produced with better transportation facilities. These include true tropical yams, yucas, ocas, and chayotes. Mandioca, used for tapioca and adhesives, can be grown in Brazil, Paraguay, and throughout much of tropical Latin America. Carnauba and uricury waxes are produced in Brazil and other portions of Latin America.[9] Exotic flowers have also been made increasingly available by improved and extended air transport. There are also a host of other products not yet even known, since presumably many wild plants in the jungle or interior regions have not yet been discovered or catalogued.

A Latin American product which is being increasingly publicized in the United States is yerba maté, the South American beverage widely consumed at home but not yet popular abroad. Although popular tastes are always somewhat unpredictable, it is quite possible that an intensive foreign market might be created. An increased Latin American population, perhaps arising through industrialization and immigration, might also provide a larger-scale domestic market. In either event, the industry might be placed on a larger, more systematic basis. Present cultivation is more or less haphazard, small scale, and scattered over wide areas of Argentina, Paraguay, Brazil, and other countries.[10] An indication of the size of the existing local market is furnished by estimated domestic consumption of 10,000,000 to 15,000,000 persons.[11] Yearly consumption per capita of yerba maté in Chile is estimated at 1½ pounds; in Argentina, 20 pounds; in Uruguay, 22 pounds; in Paraguay, 34 pounds; and in the Brazilian state of Parana, 44 pounds.

Latin American lumber has been used extensively locally and has entered foreign trade, but exports do not indicate the extent of these resources. Forest products such as rubber, coconuts, Brazil nuts, tonka beans, balata, and quebracho have obscured the extent of lumber resources. In many countries, of course, huge stands have been depleted by reckless, haphazard cultivation, or by utilization for charcoal. Forest and lumber resources in Latin America, however, remain extremely large.

[9] *Ibid.*

[10] Pan American Union, *Commodities of Commerce Series 4*, p. 19.

[11] *Ibid.*; also U. S. Department of Agriculture, *Inter-American Cooperation in Agriculture*, by E. N. Bressman, January 6, 1941.

Since there is an abundance and a wide dispersion of softwoods in the world, Latin American export has been virtually confined to cabinet woods. In Venezuela alone, however, some 600 species of trees exist.[12] Large stands of hardwoods can be found in Central America, Mexico, and to a lesser extent the West Indies. South American forests contain hardwoods such as mahogany, rosewood, ebony, cedar, walnut, oak, and cyprus; and softwoods such as pine, larch, poplar, eucalyptus, laurel, and balsam wood. They also, of course, contain a wide variety of palms, rubber trees, shrubs and plants, and similar vegetation.

Possibilities of forest production for export are rather bright in Central America, which has large resources and is close to a great market. Some of these products can be obtained in few other areas, such as the misnamed balsam of Peru, found in El Salvador.[13] Production, however, has shrunk considerably in recent years, although the "Balsam Coast" of Western Salvador has about 50,000 trees under cultivation. Chicle is also grown in Central America, especially in such countries as Mexico, Guatemala, and British Honduras. Native hardwoods, although not such prolific sources of public revenue as in former years, remain potential sources of investment. Great stands of mahogany, cedar, rosewood, and other cabinet woods may be accessible if new roads are built. In recent years, several trees with properties useful for aviation and naval purposes have been exported in increasing quantities. They include balsa and the ceiba tree, which is a source of kapok, or "tree cotton."

ignificant Areas

A further glimpse of potential agricultural and forest investment outlets in Latin America can be gained by studying certain areas in which such outlays might be made. Huge areas that could be cultivated remain uncropped. Argentina, for example, with 75 per cent of her land suitable for some sort of cultivation, has huge undeveloped areas. Indeed, it has recently been estimated that only about 11 per cent of the land area of Argentina is now under cultivation.[14] Another 44 per

[12] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 8.

[13] This description of Central American forest resources is taken from Randle Elliott, "The Resources and Trade of Central America," *Foreign Policy Reports*, 17:153, September 1, 1941.

[14] Pan American Union, *American Nation Series* 1, p. 19.

cent of land area is utilized for pasture; 27 per cent is unproductive, such as mountains, lakes, and rivers; and 18 per cent is forested. Further estimates indicate that the proportion of cultivated land especially adaptable for cereal crops could rise to 29 per cent; the area suited for other agricultural and pastoral purposes could be expanded to 39 per cent; unproductive land could be whittled down to 14 per cent; and forested areas might remain about the same.

Mexico tills 6 per cent of her land, although a much larger area could be developed through irrigation and other techniques.[15] Brazil, over half of whose area might ultimately be cropped, actually has 1.6 per cent of her land under cultivation. Chile and Peru, somewhat shackled by terrain, have only about 8 per cent of their land capable of tillage. In the temperate areas, much of the best land is in use, with six acres of cultivated area per capita in Argentina, two acres in Uruguay, and three acres in the United States. Tropical areas are lightly cropped and offer potentialities, especially for certain types of products. Mountainous areas have been very lightly developed but are rather limited in potentialities. In the tropics and in these rugged areas, the cultivated area per capita varies from 1.5 in Mexico to 0.7 in Brazil and 0.6 in Peru. In the West Indies, heavy land use prevails as dense populations swarm over small areas.

Several interesting development projects are under way in some of these potentially significant areas. They include the attempt to develop the Amazon basin; a project for diversified land use in heavily populated Haiti; and an agrarian program in undeveloped and isolated Paraguay. These areas do not necessarily represent the greatest agricultural potentialities in Latin America, but they do manifest some of the divergent types of development.

The Amazon basin, largely covered by tropical rain forest, constitutes 40 per cent of the area of Brazil but has less than 10 per cent of the national population.[16] Most of this limited population is concentrated near the ocean and in a few cities, with the density of the basin being less than 0.5 per square mile. This area has been abundantly endowed with certain resources, resulting in large per capita exports. Temporary, exploitive development has been carried to extremes, and establishment

[15] This paragraph is based upon Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367:99, February, 1941.
[16] Preston James, *op. cit.*, pp. 538–539.

of the more permanent and intensive forms of land use has been discouraged. This course of development has been a vicious circle: exploitive, destructive techniques discouraging the growth of a large, stable population; and the resultant shortage of labor rendering intensive, long-range development difficult.[17]

If and when the Amazon basin is developed on a long-range basis, tree crops will doubtless predominate. Despite the popular impression to the contrary, soil in this tropical area is not particularly fertile. Soluble minerals have been leached out, finer soil particles have been carried down, and little humus is formed.[18] Only on the river floodplains are soils fertile in the orthodox sense. Although the soil is not suitable for most shallow-rooted crops, several tree crops can grow. Many of those crops adapted to the climate are more dependent upon favorable ground-water conditions than upon the quality of surface soil.

The most widely publicized tree product of this region is rubber, the prospects for which will be briefly discussed in a later section of the chapter. A host of other commodities are produced on a small scale or grow wild in the forest. The principal exports of this area now include Brazil nuts, rubber, skins of wild animals, lumber, cacao, vegetable oils, and medicinal herbs. One-fourth of the world's 200,000 known vegetable species, however, is found in Brazil, although lack of exploration and haphazard collection have limited development.[19] Typical of newly exploited products in the region is the babassu nut, one of a number of Brazilian oil-bearing nuts and seeds. Exports of babassu in 1940 aggregated over $3,075,000, and more than 90 per cent of available nuts remained unharvested.[20] New uses, including fuel for internal combustion engines, have been suggested for this product. Each tree is said to be capable of yielding annually 63 pounds of charcoal, 3 pounds of methyl alcohol, 10 pounds of acetic acid, and 12 pounds of tar. As is usual in the Amazon region, however, expansion of this in-

[17] For an analysis of these labor difficulties, and of the economic potentialities and problems of the Amazon area, see Sidney Zink, "The Amazon Valley: Its Economic Assets and Liabilities," *Foreign Commerce Weekly*, 8:3–5, 19, 29, August 29, 1942.

[18] Preston James, *op. cit.*, p. 543.

[19] See Silvino de Silva, "Unexploited Products of the Amazon Region," *Bulletin of Pan American Union*, 70:932–935, December, 1936.

[20] John Orloski, "Brazil Discovers New Uses for Babassu Oil," *Foreign Commerce Weekly*, 5:7, 26–27, December 27, 1941.

dustry is confronted by acute labor shortages. The oiticica tree was likewise little more than a botanical curiosity of Brazil's hinterland prior to about 1930.[21] Today this oil is used in paint, linoleum, and printers' ink, and is being marketed as a substitute for tung oil. Millions of these trees grow wild in North Brazil, and the product is already a ranking minor export.

In sharp contrast to the Amazon region, Haiti has been a small, densely populated region. Dependent upon the export of a handful of staple products, she has found it difficult to maintain her economy on an even keel. Haiti has recently launched a program of diversification in land use, this project being undertaken with the cooperation and subsidization of the United States.[22] A corporation has been formed to grow and develop rubber, oil crops, spices, drug plants, food plants, fiber plants, forest plants, and other Haitian resources or potential resources. This corporation was also formed to experiment with disease control and plant development; with perfecting methods of processing agricultural crops; and with buying and selling agricultural and manufactured products in both foreign and domestic markets. Manufacturing and handicrafts, especially those related to agriculture, were to be encouraged by the corporation. Although the project still remains largely in the opening or experimental stage, thousands of men have been employed and considerable capital invested. This program is of especial interest since it serves as a sort of test-tube for the West Indies.

Paraguay, an inland, undeveloped, sparsely settled nation with less spectacular resources than those of the Amazon region, has also launched an interesting experiment. This venture has sociological and political, as well as economic, significance. Under the Agrarian Statute of 1940 and subsequent decrees, provision was made for the distribution by grant of government-owned land to farmers.[23] The program also called for the establishment of agricultural colonies and the undertaking of a program to diversify agricultural production. Persons contracting to participate in the latter program were to receive intermediate-term cred-

[21] George Kent, "Oil on the Branch," *Reader's Digest*, 40:65–68, April, 1942; and William Small, "Industrial Oil that Grows at the River's Edge," *Foreign Commerce Weekly*, 8:10–11, 34–36, July 11, 1942.

[22] See "Haitian Corporation Formed," *Agriculture in the Americas*, 9:9, October, 1941, and subsequent issues of this magazine.

[23] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:276, April–May–June, 1941.

its from the Agricultural Bank. The proposed acreage was to be devoted to various crops according to a pre-arranged allotment. The 1940 allotment called for notable increases over existing cultivation in cotton and tobacco. Crops in the order of acreage under the new program were: cotton, corn, mandioca, beans, peanuts, tobacco, rice, castor beans, wheat, potatoes, and onions.

Mining

As indicated in the previous chapter, a very large proportion of United States and other foreign investment in Latin America has been in mining and smelting enterprises. Huge outlays in petroleum, copper, gold, silver, tin, manganese, and a number of other minerals have been notable south of the Rio Grande. Many of these products can be produced for a long period in the future, if estimates of reserves are reasonably accurate. Furthermore, certain of these mineral industries—especially petroleum, copper, silver, gold, and nitrates for a long period —have been very profitable investment outlets.[24]

One of the currently well-established mining industries in Latin America which appears to offer a continued investment outlet is copper. Latin American properties, particularly in Chile but also in Mexico, Cuba, and elsewhere, have long produced huge quantities of this metal. Over the 1912–1938 period, Latin America produced nearly one-fourth of the world supply of copper.[25] Latin American properties controlled by United States corporations or their subsidiaries alone produced nearly one-fifth of the world total.[26] Deposits are also very extensive, with Chile possessing 25 per cent of the world's copper resources, and Mexico, Cuba, Nicaragua, Venezuela, and Peru claiming another 6 per cent.[27] Investments, especially in Chilean properties, have been enormous,[28] and these outlays have yielded prolific returns.[29] Anaconda's holdings here include the largest copper mine in the world,

[24] Max Winkler, "America Looks Southward," *Annals of American Academy*, 204:36, July, 1939.
[25] Temporary National Economic Committee, *Hearings, Part* 25, p. 13,461.
[26] *Ibid.*, p. 13,463.
[27] *Ibid.*, pp. 13,465, 13,554–13,555.
[28] *Ibid.*, pp. 13,552–13,553.
[29] *Ibid.*, p. 13,549.

which is virtually an Andean mountain of copper.[30] It is Anaconda's greatest single asset and produces some 15 per cent of the available world supply. This property towers over other Chilean producers, since the caliber of ore remains high and costs remain low. Because open-pit mining is feasible, refined copper can be produced for 6 cents a pound until high-grade ore is ultimately depleted. The final limits to copper output and investment in Chile are technological. Anaconda and the United States government have contemplated a huge expansion program, but wartime priorities and shipping shortages have precluded shipment of much of the necessary machinery.

Future potentialities also appear relatively bright in the Latin American petroleum industry, which will be discussed later in the chapter. Potentialities also exist in iron and steel, bauxite and aluminum, and several other currently expanding mineral industries. Many Latin American mineral industries, however, such as gold, silver, and mercury, are very old. Many have depleted the best ore and have been operating for some time on a basis of steeply increasing costs. Estimates as to overall future investment outlets are rendered difficult by the lack of comprehensive geological surveys and the inaccuracy of many reserve calculations. One student of mineral industries in Latin America has soberly observed: "A belief that South America is a vast reservoir of untouched mineral wealth is wholly illusory and the cost of producing such as exists has so far left but moderate returns to those responsible for it."[31]

This statement may be somewhat conservative, but it is probably true that the most accessible, highest-grade ores have usually been exploited. This is particularly true of the precious metals and other minerals for which there has been a long-standing demand. Untapped reserves and future potentialities seem greatest in the more prosaic, modern minerals. Specifically, future development seems most likely in petroleum, iron, and the numerous minerals needed in the steel industry, and in those metals such as copper and aluminum—needed in high-speed transport and communication. Analysis of iron, petroleum, and certain of the ferroalloy minerals will be undertaken in subsequent portions of the chapter.

[30] "Anaconda Copper," *Fortune*, 25:52, 147–148, January, 1942.
[31] H. Foster Bain, *Ores and Industry in South America*, p. 358.

Strategic and Critical Raw Materials

Wartime procurement difficulties have focused attention upon Latin America as a possible source of strategic and critical materials. Much of this emphasis has concerned short-run production, inspired by the wartime necessity of getting necessary raw materials at whatever cost. Production of low-grade materials at high cost, however, furnishes a scant basis for large-scale, long-range investment. Rather, investment outlets are presumably most attractive in those strategic or critical industries whose post-war possibilities seem greatest. This brief analysis will be concerned, not with wartime output by marginal industries, but with long-range possibilities.

The multiplicity of strategic and critical materials precludes analysis of all the various commodities that might be included in these categories. A cross-section of possible investment, however, might be provided by study of the fourteen raw materials which have been considered strategic for nearly two decades.[82] Such focusing of attention upon these persistently strategic industries need not minimize the possible importance of critical or essential materials produced in Latin America. Investment in bauxite properties, in Brazil as well as the Guianas, in Peruvian vanadium, and in lead, zinc, platinum and other industries might well develop on an impressive scale.

The fourteen raw materials persistently strategic and included on the official Army-Navy Munitions Board list are: antimony, chromium, coconut shell char, manganese, manila fiber, mercury, mica, nickel, quartz crystal, quinine, rubber, silk, tin, and tungsten. Long-range investment in certain of these products seems quite feasible; in others outlays would be of dubious validity; and in still others quite hazardous.[83] On a purely physical or technological basis, most of these industries could be appreciably expanded, many of them being capable of ultimately meeting United States requirements. Whether such expansion proved economic as well as technically feasible would depend upon the sort of labor supplies, transportation, domestic legislation, foreign trade policy, and hitherto unmeasured resources. Much would

[82] See Army and Navy Munitions Board, *The Strategic and Critical Materials.*

[83] The following analysis is taken from C. Addison Hickman, *Economic Implications of Strategic Raw Materials in the Western Hemisphere.*

also depend upon the nature of the post-war world, since world trading through hemispheric blocs and featuring autarchy might necessitate investment in otherwise uneconomic industries. On the contrary, resumption of relatively unrestricted world commerce and free access to raw materials would render investment in uneconomic industries very hazardous.

Nevertheless, certain preliminary estimates of possibilities should provide insight into the general scope of such investment. In several of the mineral industries, about the only opportunity of significant investment would be replacing primitive with advanced technologies. Examples are antimony, mercury, tungsten, and chromium, which occur rather widely in Latin America. Investment in mica will probably be relatively negligible, since labor shortages preclude expansion of this predominantly hand-labor product. If mechanization could be introduced, large domestic mica reserves exist in the United States that might be more economically exploited. Investment in Latin American nickel properties is not likely to assume impressive proportions, since Canada supplies most nickel needs and possesses abundant reserves. By a process of elimination, three strategic minerals—manganese, tin, and quartz crystals—appear to offer the most extensive outlets for future investment. In each of these minerals, large resources remain untapped and undeveloped, and mechanization can probably be accentuated. All told, at least $100,000,000 could probably be invested in these strategic mineral industries, this sum not including transportation improvements, smelters in the United States, or similar outlets.

Investment possibilities are on a much larger, if longer-range and more hazardous, basis in the non-mineral strategic industries. Although prospects for sericulture on an export basis do not appear bright, coconut, manila fiber, quinine, and rubber industries might well be developed. In each case, plantation cultivation, heavy capital outlays, and adequate supplies of labor are among the prerequisites to expansion. In each of these industries, however, the requisite soil, climate, and other natural conditions necessary to growth do exist. The Department of Agriculture has estimated, for example, that even a single Central American nation could produce enough rubber to satisfy United States requirements. It is probable that at least $200,000,000 could be invested in plantation coconut, manila fiber, quinine, and especially rubber industries. That sum might be invested in the rubber industry

alone if the hemispheric industry were to be developed on a scale comparable to the Asiatic producers.

Such investment, however, would be dependent upon the elimination of labor shortages, plant diseases, transportation deficiencies, and other obstacles. It would also take at least a generation, as Ford's experience in Brazil seems to demonstrate. It is also very difficult to determine in advance whether large, modern plantation industries in the hemisphere could become sufficiently efficient to compete in the post-war world with older sources. This assumes, of course, that shipments from such sources will be available. In rubber, a plantation industry would be confronted not only with competition from Malaya, the Dutch East Indies, and the rubber cartel, but also from synthetic rubber. The Chilean nitrate industry, after World War I, was ruined not by the competition of natural nitrate producers but by the synthetic product. Suffice it to observe that huge investment could probably develop large plantation industries producing these strategic products. Investors in such industries, however, would do well to recognize the hazards as well as the imponderables involved.

Light Industry

Most of the industrialization thus far developed in Latin America has been of the light, consumer's goods variety. Cotton textiles, shoes, beer, and meat products have been familiar in the local industry of many nations. Because of the widespread belief that heavy industry is not feasible in Latin America, emphasis has often been placed upon future outlays in the consumer's goods sphere. It has been asserted, for example, that a lack of coal and power precludes the establishment of heavy industry but not the development of light manufacturing.[84] Again, the lack of a thriving domestic demand is said to prevent the large-scale development of heavy, durable goods industry but not production of light goods.[85] It has been predicted that local minerals and foodstuffs will continue to be processed and sold at home, largely because transportation costs and tariffs protect local producers. Only in Argentina, the argument continues, can foreign mass-production com-

[84] Howard Trueblood, "Raw Material Resources of Latin America," *Foreign Policy Reports*, 15:114–128, August 1, 1939.

[85] H. Foster Bain, *op. cit.*, p. 369 and elsewhere.

petition be successfully met. These analyses, it will be noted, are essentially negative, since expansion of consumer's goods industries is assumed because there can be no other kind of industrial development.

If this type of industry is to expand sufficiently to absorb a significant volume of investment, what particular fields or products are most promising? During the course of World War II, it has been observed that the curtailment of European sources of handicraft exports might facilitate expansion of Latin American handicraft production.[36] Silver, rug, glass, pottery, and similar handicraft industries are very old indeed in the lands to the south. There are still other handicraft commodities in Latin America long been made for domestic consumption that might also find a market abroad.[37] Certain other products requiring hand labor, such as toys, laces, and similar fabrics, might also be produced in Latin America. The growing refugee settlements south of the Rio Grande have furnished the nucleus for certain of these new handicrafts. Post-war migration into Latin America might further encourage such industries.

Uniform high quality, standards, and grades are said to be the most urgent requirement of Latin American handicrafts. Although there may well be considerable expansion of these industries, it may be doubted whether particularly large volumes of capital would be required. Such industries would also face terrific post-war competition from European and Asiatic countries, and might also be confronted with a labor shortage if a growing heavy industry claimed part of the labor force.

Local industries will doubtless continue to satisfy many of the fundamental Latin American requirements of food, clothing, and shelter—producing textiles, shoes, flour, building materials, and similar goods. The impetus of World War II has apparently not only encouraged such existing industries but has also produced many more. The war years beginning in 1940 may well prove to have constituted a pivotal period in the industrialization of Latin America. Shipping shortages and war production in the industrial nations formerly supplying Latin America have rendered industrial imports increasingly difficult to pro-

[36] Susan Lydia Bull, "Handicraft Imports from the Other American Republics," *Foreign Commerce Weekly*, 5:10–11, November 15, 1941.

[37] Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:381, September–October, 1941.

cure. Some of the industries especially encouraged by World War II have included cotton textiles, twine, cordage, and bags; drugs and chemicals; paper and pulp; paints and pigments; cement, lumber, and other construction materials; and all kinds of foodstuffs, including processed meats, rice, yuca, citrus fruits, and tropical fruits and vegetables.[38] Literally hundreds of manufactured or processed products formerly imported are now produced domestically, but this wartime expansion has not been merely a move toward self-sufficiency. Many of these manufactured products are actually in the export stage, notably the Brazilian cotton textile industry.

Studies of branch plants located in Latin America have also come to a relatively favorable conclusion as to future potentialities.[39] Mortality has been rather slight, earnings have been relatively high, and domestic regulation has been less stringent than with mining or public utility investments. Indeed, it has been claimed that such investments compare very favorably in return and stability with other foreign investments in South America. The record of such processing industries as meat packing has been particularly successful, as revealed by the earnings cited in the previous chapter. Prospects for the success of any given branch plant or industry depend, however, upon such variables as local demand, resources, tariff treatment, and government regulation.

Fuel and Power

In any analysis of the feasibility of heavy industry in Latin America, the role of fuel and power cannot be ignored. Thus the scope of possible investment in fuel and power may well be the key to the scope of potential outlays in steel and heavy industry. Although many other factors, such as labor, management, and legislation, may facilitate the growth of heavy industry, fuel, power, and iron must be the ultimate foundation. This statement does not imply at all that fuel, power, and iron must all necessarily be produced domestically. On the contrary, many great industrial concentrations have been developed in part upon the basis of imported raw materials. Unless, however, there are overwhelming advantages, aside from fuel, power, and iron,

[38] Dorothy Tercero, "New Industries in Latin America," *Bulletin of Pan American Union*, 76:95–108, February, 1942.

[39] D. M. Phelps, *Migration of Industry to South America*, pp. 289–324.

the scope and location of these resources are likely to be decisive considerations.

Coal

Coal has been the traditional source of fuel and power in most great industrial concentrations established to date. Few large or high-grade coal deposits have yet been discovered in Latin America. Deposits exist over scattered areas in many nations, but few of them are either large scale or suitable for coking purposes.[40] Apparently the geological formation of most of Latin America has not been conducive to extensive coal resources. Various estimates of coal reserves have been made, but one of the more familiar places South American deposits at about one-half of one per cent of the world's coal resources.[41] Vast quantities of this limited hoard of coal contain such a large proportion of ash, sulphur, silica, and other impurities as to be very costly and relatively inefficient.[42]

Coal production statistics tend to confirm this rather gloomy estimate of Latin American coal resources. Some resources remain relatively inaccessible; others are near the sea and have been worked for a long period. Hence, extremely modest production statistics tend to indicate scanty resources of high-grade coal. The impetus of a thriving steel industry, of course, might encourage the full exploitation of the relatively limited resources that are available. Production figures for 1938, however, reveal that as yet Latin American coal production is negligible.[43] Chile was the dominant coal producer in that year, followed by Mexico, Brazil, Colombia, Peru, and Venezuela, in that order. All of these Latin American nations combined produced approximately 4,232,000 metric tons, exclusive of lignite. This amounted to about one-third of one per cent of world production in 1938.

This production record appears to cast some doubt upon the oft-repeated statement that, although no individual Latin American nation possesses enough coal for a steel industry, a combination of countries might have adequate resources. There are, however, a few areas in

[40] Pan American Union, *Commodities of Commerce Series* 3.
[41] Isaac Lippincott, *Economic Resources and Industries of the World*, p. 138.
[42] U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Series* 105, pp. 256–284.
[43] League of Nations, *Statistical Yearbook, 1939–1940*, p. 137.



*Taken from U. S. Bureau of Foreign and Domestic Commerce, *Trade P motion Series 126*, opposite p. 38.

Latin America possessing coal deposits that might be economic unc improved technologies.[44] Chilean coal, for example, is accessible a is reported to be fairly useful for coking purposes if mixed with forei coal. There are a number of rather extensive Peruvian deposits, b these resources have hitherto been relatively inaccessible. Colombia h some possibilities as a coal producer, with numerous deposits and rea access to transport facilities.

The most widely publicized coal deposits, although not thus far t most productive, are those located in southeastern Brazil. The San Catarina and Rio Grande do Sul areas produce coal with a high a and sulphur content, but this coal can presumably be reduced to co under modern technology. Reserves are estimated at 5,000,000,0 tons, most of this tonnage representing coal possessing marked i purities.[45] These reserves are significant primarily because of th proximity to the great Brazilian iron ore deposits, the probable ba for any major Latin American steel industry. These resources in sou eastern Brazil now produce for the industrial establishments of the ar the smaller plants utilizing coal to supplement wood. Although qu ity is poor, the coal can be used by industry and certain railroads, well as by importers who have been forced by law to buy national c equaling 20 per cent of imported coal.

Some observers, however, have questioned the absolute necessity domestic coal, either because it can be imported or because it may n be required from any source. Although Latin America is very pc in coal, she has an abundance of petroleum and enormous potent water power capacity. Furthermore, these latter sources of fuel a power have been replacing coal rather rapidly in Latin America. 1913, sources of power and fuel produced in Latin America consist of coal, 87 per cent; petroleum, 8 per cent; and water power, only per cent.[46] By 1928, even before the petroleum industry had register its most spectacular gains, these sources of fuel and power had shift in relative importance. In that year, coal provided but 37 per cer petroleum, 49 per cent; and water power, 14 per cent. Much of th

[44] U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Ser* 105, pp. 256–284.

[45] Preston James, *op. cit.*, pp. 528–529; and *South American Handbook, 19* p. 221.

[46] U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Ser* 126, pp. 2–3.

fuel and power was exported, but the increased availability of these other sources of energy is evident. Even in the Latin American steel industry, the electric furnace has already made its appearance. Significantly, the iron resources of Brazil are also of such exceptional purity that the ordinary ratio of iron to coal may be reversed, thus minimizing the quantity of coal required.[47]

Petroleum

Although poor in coal, Latin America is very rich in petroleum resources. Enormous investments have facilitated large-scale production in several Latin American nations, in particular Venezuela, Mexico, Colombia, Peru, and Argentina. Over the past century, Venezuela has risen to third position among world producers, ranking only behind the United States and Russia. By 1939, she had come to produce more petroleum than all the other Latin American producers combined.[48] Mexico, although failing to hold her relative position in the face of rich new fields elsewhere in the world, has nevertheless been a major producer for a century.

Figures for 1857–1940 indicate that South America has produced 2,866,011,000 barrels of petroleum; Mexico, 1,986,801,000 barrels; Trinidad, 201,783,000 barrels; and other Latin American producers, 304,000 barrels.[49]

These figures contrast with a world total of 37,387,377,000, but they constitute a large portion of the 13,582,326,000 barrels produced outside the United States during that period. Furthermore, Latin American geological stocks are reported to be very large, although comprehensive surveys have been few. Estimates by Garfias indicate that stocks are especially large in Venezuela, with Colombia, Mexico, Peru, Trinidad, Ecuador, and other Latin American producers possessing somewhat smaller reserves.[50] An estimate by the American Petroleum Institute, published soon after World War I, placed estimated South and Central American resources at 23 per cent of the world total, as contrasted with 17 per cent apiece for the United States and Russia.[51]

[47] Preston James, *op. cit.*, pp. 455–456.
[48] League of Nations, *Statistical Yearbook, 1939–1940*, p. 131.
[49] *Petroleum Facts and Figures, 1941*, p. 16.
[50] Herman Kranold, *International Distribution of Raw Materials*, p. 220.
[51] *Ibid.*, p. 221.

Although some Latin American fields are declining in yield, others have proved disappointing, and still others have been expropriated and nationalized, the overall future of petroleum production and investment appears favorable. Yields from United States investment in petroleum properties in Latin America continued appreciable even during the 1930's despite occasional much-publicized confiscation. Since petroleum is intimately associated with high-speed transport, mechanization, industrialization, and urbanization, its consumption is likely to continue its recent phenomenal increase.

Water Power

Perhaps the most spectacular possibilities of expanded fuel and power in Latin America are in the sphere of water power. The hydroelectric resources of Latin America are enormous, although they remain largely untapped and undeveloped. According to one estimate, potential water power resources in Latin America amount to 54,850,000 horsepower.[52] This vast potential power stands in sharp contrast to the 1,521,400 horsepower actually developed at the time the foregoing estimate was made. Of the potential horsepower, 43,700,000 was located in South America; 11,000,000 in Central America and Mexico; and 150,000 in the West Indies. The West Indies, however, had more fully harnessed those resources at hand. South America claimed 902,100 horsepower actually developed; Central America and Mexico, 586,800; and the West Indies, 32,500. Nations with the greatest potential water power were estimated to be Brazil, Mexico, Argentina, Peru, Colombia, and Venezuela, in that order. Statistics as to potential resources mean relatively little, however, unless location and the existing technology are also known. Water power resources are often so remote from the great cities or industrial centers that need the energy that transmission is impossible or uneconomic. The great Iguassu Falls, with their enormous potential power, have long been in precisely this position. In many other sections of Latin America, the sources of energy are likewise located in mountainous, sparsely settled, or inaccessible regions. Nevertheless, the water power potential remains enormous if countries are able to take advantage of it.

[52] U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Series 126*, p. 45.

Water power resources are particularly abundant in Brazil, which has plentiful rainfall and a pattern of mountains, plateaus, and plains. Brazil claims the sixth largest water power potential in the world, the Belgian Congo, Russia, the French Congo, India, and the United States, being ahead in that order.[53] Nevertheless, in 1940 the total installed hydroelectric capacity of the country was but 7 per cent of potential capacity.[54] As is so often true in South America, some of the greatest potential sources of power are inaccessible or remote from the great consuming centers. Iguassu Falls, at the Brazilian-Argentine boundary, has the greatest simultaneous water discharge of any body of falling water in the world, including Niagara and Victoria Falls.[55] Nevertheless, this potential power has yet to be harnessed. One great power house near Santos, however, does produce 308,000 horsepower, and was at one time the eighth largest installation in the world.[56]

Argentina has neither the developed hydroelectric capacity nor the potential that Brazil can claim. Much of the electric power generated in Argentina is produced from European coal or by Diesel plants.[57] There are, however, four major hydroelectric plants, one of which belongs to the national government and a few small private and state-owned installations. Some small hydro plants are being built in northwestern Argentina, and some big dams which will produce power are also under construction. A 12,000-horsepower plant, for example, is in operation at a dam on the Rio III; and a dam and power plant generating 200,000 horsepower is being constructed in the State of Mendoza, 700 miles from Buenos Aires via transmission line.

Significantly, many of the great dams and hydroelectric plants now being built are being constructed through public initiative and capital. This is not a universal tendency, of course, since British capital has built many a dam and hydroelectric project in Latin America. Loans by the Export-Import or Inter-American Banks might be employed in the relatively near future to further such projects.

[53] "General Survey of Electricity in Brazil," *Brazil Trade Journal*, 1:14–15, July, 1941.

[54] *Ibid.*

[55] "Brazil—Arsenal of Strategic Materials," *Foreign Commerce Weekly*, 6:17, February 21, 1942.

[56] *Ibid.*

[57] Francisco Matthis, "Electricity in Argentina," *Agriculture in the Americas*, 2:35–36, February, 1942.

Although coal resources of Latin America are very limited, it is likely that the requisite fuel and power might be available for an expanded Latin American heavy industry. Iron, however, is also indispensable to steel and the cluster of heavy industries built around it.

Iron Ore

If Latin American iron resources were inadequate, heavy industries could scarcely develop to impressive proportions. The iron reserves of Latin America, especially in Brazil but also in Peru, Chile, and Colombia, are enormous. Vast deposits of high-grade ore exist,[58] but their exploitation has thus far been minimized by a lack of fuel, poor transport, labor shortages, and inadequate local demand. As a result of such limiting factors, Latin America produced an estimated 1,491,000 metric tons of iron ore in 1938, most of this from Chile, Brazil, Mexico, and Cuba, in that order.[59] This figure contrasts sharply with estimated world production of 75,000,000 metric tons during that same year. It has been estimated that the United States steel industry east of the Alleghanies could use 1,500,000 tons of Brazilian ore yearly now and much more later.[60] Yet, at the time that estimate was made, 10,000 tons per month were actually being exported. Brazil, which is estimated to possess 22 to 23 per cent, or virtually one-fourth, of the available world supply of iron ore,[61] actually produces but a fraction of one per cent.

Iron ore occurs in sixteen of the twenty Brazilian states, although Minas Geraes is by far the richest in such deposits. Reserves in that state alone are variously estimated at between 8,000,000,000 and 15,000,000,000 tons,[62] located over an area of some 6,000 square miles. This area includes the Itabira region, which produces 50 to 65 per cent of high-caliber ore, to be developed through the aid of the United States. Most of the iron ore of this state is of Swedish caliber and is

[58] For a descriptive survey of Latin American iron deposits, see Pan American Union, *Commodities of Commerce Series 3*.

[59] League of Nations, *Statistical Yearbook, 1939–1940*, p. 143.

[60] "Mineral Resources, Production, and Trade of Brazil," *Foreign Mineral Quarterly*, 4:94, July, 1941.

[61] *South American Handbook, 1941*, p. 221; Preston James, *op. cit.*, pp. 464–466.

[62] See Pan American Union, *Commodities of Commerce Series 3*, pp. 12–15.

low in both phosphorus and sulphur. Since it can be mined in large part through open-pit methods, costs at the mine are estimated to be very low. Some uncertainty exists as to exact geological conditions and resources in other Brazilian areas, but iron deposits are believed to be very extensive in several other regions. Very large deposits of manganese are also found and partially developed in Brazil, these resources being in rather close proximity to the iron and being handicapped by the same lack of adequate transportation facilities.

In 1910, the head of the Brazilian Geological Survey announced the astounding quantity of ore, and a scramble for concessions resulted.[63] Most of those obtained were procured by British, United States, French, and German capital. The largest single ore body, near Itabira, has been in the possession of a British–North American syndicate. Since 1919, the owners of Itabira have attempted to get permission of the Brazilian government to construct a new railroad to the coast. The Central was single track, with many curves and grades and possessing inadequate rolling stock. A new road was needed to connect with a special ore port north of Vitoria, from which a fleet of ore boats could take iron. For various reasons, the Brazilian government hesitated to grant this concession, perhaps because it was hoped that a domestic steel industry could ultimately utilize the iron. In 1942, the series of agreements between the Brazilian and United States governments called for development of the Itabira properties and construction of some of the necessary railroad facilities.

Pig Iron and Steel

As previously indicated, actual Latin American production of pig iron and steel has remained slight, although growing. In 1938, for example, Mexican production of pig iron aggregated 90,000 metric tons; Brazilian output was 98,000 metric tons; and the world total, 104,100,000 tons.[64] The leading Latin American producers in that year each failed to produce one-tenth of one per cent of world output. Production figures for steel ingots and castings produced during 1938 reveal a similar situation. Mexico produced 74,000 metric tons; Brazil, 90,-

[63] Preston James, *op. cit.*, pp. 464–466.

[64] League of Nations, *Statistical Yearbook, 1939–1940*, p. 144.

000 metric tons; and the world, 109,000,000 metric tons.[65] Brazilian production contrasted with United States output of 28,805,000 tons, although the latter output was abnormally low. When it is recalled that Brazilian resources are presumably equal in extent and quality to those of the United States, this disparity in output is indeed striking.

Development of the Brazilian pig iron and steel industry began as early as 1600, but it has been painfully slow. After more than three centuries, only seven companies were reported operating in 1938, with a very limited capacity. Development since 1930, however, has been very rapid, output increasing several-fold. In 1941, under the impact of World War II, Brazil produced 208,795 metric tons of pig iron; 154,189 tons of ingot steel; and 149,928 tons of rolled steel.[66] Although still far from self-sufficient, Brazil was exporting pig iron and steel to Argentina, which has a fabricating industry. This increase in output has been attained under the highest tariff rates and most complete protection granted by any Latin American nation. In 1938, the duty on crude and semi-finished iron and steel was $21.50 a ton, and the duty on flat, thin-rolled products was $68 a ton.[67] Numerous subsidies have also been granted, in addition to mining concessions extended in prodigal fashion prior to the inauguration of the restrictive mining code of the late 1930's.

The prospect for a Brazilian steel industry at least capable of satisfying most of the local demand of 300,000 to 400,000 tons of pig iron annually has brightened significantly since the outbreak of World War II. In 1940, Export-Import Bank credits of $20,000,000 were joined with $25,000,000 of local capital in a project to build a new steel plant in the Paraiba Valley.[68] This plant is established in southeastern Brazil, the ore being brought over the Central Railroad a distance of some 235 miles. Brazilian engineers have hoped to use low-grade coal from Santa Catarina, which can be made into coking coal despite its high ash and phosphorus content.[69] Coal is to be shipped by boat to Rio de

[65] *Ibid.*

[66] "Iron and Steel Production in Brazil," *Foreign Commerce Weekly*, 8:21, September 19, 1942.

[67] U. S. Tariff Commission, *Report 128, 2nd Series*, pp. 272–276.

[68] "Brazil—Arsenal of Strategic Materials," *Foreign Commerce Weekly*, 6:8–9, February 21, 1942.

[69] Preston James, *op. cit.*, pp. 464–466.

Janeiro and small near-by ports, and thence by rail over the Great Escarpment to the steel mills. As indicated previously, it is believed that the high quality of the iron ore allows the usual coal-iron ratio to be reversed. This single plant was to have an annual productive capacity of 450,000 tons, give employment to 10,000 or more men, and attain capacity output within three years after construction was started.[70] In 1942, however, the necessary machinery was very difficult to import. If railroad facilities can be improved, the major remaining hurdle will be surmounted. The location of the new plant is in close proximity to the domestic market, which is centered in São Paulo and Rio de Janeiro. The immediate prospect is a heavy-industry community in the Paraiba Valley, with the surrounding rural areas providing necessary foodstuffs.

Ultimately, this may mark the beginning of large-scale steel production and heavy industrialization in southeast Brazil. If so, enormous capital outlays could be employed, presumably in cooperation with Brazilian authorities. Such a development would require enormous fixed investment and might provide a greater outlet for private capital than nearly all the other Latin American outlets combined. Such a steel industry might also make simple steel products available at lower cost, through savings in ocean freight alone.[71] This might give rise to heavy industry in other sections of South and Central America, as well as provide purchasing power which would create a local market for staples now wholly exported.

Small-scale steel output and potentialities exist elsewhere in Latin America. Nations in which coal and iron resources seem to be in happiest combination are Chile, Mexico, and Peru.[72] It is entirely possible, however, that importation of coal or its replacement by other fuels might render other nations capable of heavy industrialization. Significantly, Argentina's iron deposits, although large, are of very low caliber and are costly. The total cost of domestic pig iron is several times that of imported pig iron, and it is believed that economic pro-

[70] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 18, p. 5.

[71] Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:381, September–October, 1941.

[72] See U. S. Tariff Commission, *Report 128, 2nd Series*, for a country-by-country analysis.

duction is not feasible under existing technology.[73] With coking coal also lacking, the Argentine industry is restricted to foundries, fabricating plants, and rolling mills.[74] In 1937, a special committee was appointed to consider measures for stimulation of the local industry, but little has come of that attempt. It appears that domestic steel output in the currently most economically advanced nation of Latin America will continue to be dependent upon imported iron ore, coal, and even manganese.

Prospects for Heavy Industry

Acute shortages of capital and labor, plus transportation difficulties, have thus far precluded the development of a major heavy industry in Latin America. The scope and probable future magnitude of these impediments will be considered in the following chapter. Analysis of resources, however, would appear to cast considerable doubt upon the oft-repeated assertion that only light, consumer's goods industries could be developed in Latin America. There is an enormous amount of high-grade iron ore. Although coal is scarce and low grade, it might be imported or supplanted by other sources of fuel and power; and enormous quantities of manganese exist in Brazil, Cuba, and Chile. A host of other essential metals employed in producing steel and heavy goods also can be found in Latin America. Examples are antimony, tungsten, vanadium, chromium, and similar metals. Bauxite, the raw material for aluminum, exists not far removed from the requisite water power. Abundant supplies of petroleum would seem to facilitate potential mobility and high-speed transport, so necessary to an industrialized, urbanized economy.

Such favorable factors will remain largely inoperative, however, until enormous quantities of labor, capital, and time are thrown into the balance. Industrialization of the United States–European variety remains at least a generation away in Latin America. The raw material resources are probably more than adequate, but difficulties posed by limited human resources, transport deficiencies, and similar obstacles remain formidable. But heavy industry, perhaps technologically divergent from our own, is at least a 50-50 eventuality in Latin America.

[73] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin 776.*

[74] U. S. Tariff Commission, *Report 128, 2nd Series,* pp. 302–305.

If so, investment in Latin America on a new and unprecedented scale will probably result. It will not and cannot be, however, investment of a merely exploitive or temporary nature.

Railways

Since inadequate transportation has been a major "bottleneck" in the development of Latin America, this sphere obviously requires vast outlays. Some of this investment may be private, although much of it must presumably be public. Some forms of transportation are declining in significance; other types, such as air transport, are booming. In the subsequent analysis of possible transportation investment in Latin America, the principal forms of transport will be studied. Little distinction will be made at this point as to the private or public nature of outlays, although mention may be made of trends. This section will deal first with railways, then ocean and inland shipping, highways, and air transport.

Railway mileage has increased since 1913, but at a relatively moderate rate.[75] In those nations, such as Cuba and Argentina, whose railroad networks are relatively mature, little growth is being registered. In a few areas, the need for railway extension is very acute, and investment by either private or public agencies is imperative. In general, however, new public investment is going into highways, and new private outlays are increasingly concentrated in airlines.

Brazil probably needs new trackage as badly as any nation in Latin America. She has a larger area than the United States, but in 1938 her railway mileage was only 8 per cent of the former's.[76] She needs many thousands of miles of additional trackage to reach the vast interior areas now virtually untouched, as well as additional facilities in such vital areas as the manganese–iron–coal regions. Yet, Brazilian railroads are not actually developing with startling rapidity. During the 1930–1939 decade, 33 miles of highway were opened for each mile of railroad opened. Although the outbreak of World War II accentuated the building of certain highly strategic lines, general railroad de-

[75] *Inter-American Statistical Yearbook, 1940*, p. 446.

[76] Paul Bloom, "The Railways of Brazil," *Foreign Commerce Weekly*, 2:349–351, March, 1941.

velopment is still lacking. New rails, roadbed improvements, rolling stock, and a standard gauge in place of the five gauges now employed are also needed. The major problem, however, is that of extending trackage into new, undeveloped areas. Additional trackage is needed to tap interior areas, which cannot well be developed until transportation facilities are provided. On the other hand, profitable operation of new lines can eventuate only after these regions are sufficiently developed to provide the necessary traffic. At present, 70 per cent of Brazil's railways is in states containing 20 per cent of the nation's land area, which is an index to the pattern of her economy.

In certain other countries, wartime requirements have imposed new strains upon railway networks. Improvement of such systems, however, has been discouraged by the prospect of post-war return to normal traffic. Mexican railroads, essential for military purposes, have lacked badly needed rolling stock, locomotives, and modern equipment. Many sections have rails too old or too light to support heavy industrial or military supplies. Almost all Mexican lines have long required some measure of refinancing. Attraction of capital on a short-run basis, however, is difficult and is made more so by past defaults on Mexican railway bonds.

In Venezuela, World War II encouraged completion of a highly strategic 35-mile section of her scanty 640-mile railroad network.[77] This marked the first important railroad construction in two decades, although 3,598 miles of highway have now been built. The railroad lines are clustered near the coast and along the rivers, while many of the highways have been projected into the interior.

Earnings of Latin American railroads are also scarcely conducive to large-scale private investment in the post-war era. A few examples will suffice. Brazilian railroads in recent years have registered a very slight surplus of receipts over total expenditures, although an actual operating loss was absorbed in 1935.[78] Earnings of other systems, however, have been less favorable. Cuba's privately owned railroad system suffered continued net losses from 1931 through 1939, and 1938–1939 was the third operating year in succession to show a decline in total operating

[77] "Venezuela Completes Strategic Rail Network," *Foreign Commerce Weekly*, 8:9, 27, September 26, 1942.

[78] Paul Bloom, *op. cit.*, p. 351.

revenues.[79] In 1938–1939, sixteen railroad lines operated at a net loss, as contrasted with but thirteen during 1937–1938, although some of these losses were smaller than in the previous year. No dividends were paid by Cuban lines during 1938–1939, and, whereas a few lines paid interest charges, most did not. These earning figures reflect the operation of a relatively complete, mature system that merely needs repairs and not extensions. Argentina's system in 1940 had the lowest income experienced in several years, receipts and net tonnage dropping rather markedly.[80] Earnings had not been good, however, for many years.

One of the more significant trends in Latin American railway operation has been the tendency toward nationalization and state operation. Although British capital has long dominated many of these railway systems, a number of the British lines are being purchased. Certain British lines in Chile and Argentina have been taken over by the respective countries, and occasional negotiations for much broader transfers are reported. In Nicaragua, 1940 marked the complete nationalization of the Nicaraguan railroad and its affiliated operations.[81] Prior to its substantial acquisition by the Nicaraguan government in 1924, and until recently, the railroad was incorporated in the United States under the laws of Maine. At one time, 51 per cent of the stock was held by United States interests. The nationalization process has also, of course, continued apace in Mexico.[82]

In Brazil, where future expansion may be most needed, a very appreciable portion of the railway network is already operated or owned by the government. In 1938, the federal government managed 7,998 miles of common carrier railroads; the states, 6,498 miles; and private concerns, 6,761 miles.[83] Operation statistics, however, exaggerate the extent of state and private, as opposed to federal, ownership. Actually, the federal government owns 62 per cent of the mileage, operates but 38 per cent, and leases the remainder to the states or to private enterprises. Of the fifty-five common carrier lines operating in 1938, only five were foreign in regard to the nationality of their capital. Of total

[79] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 64, pp. 7–9.

[80] *Ibid.*, No. 55, p. 6.

[81] *Ibid.*, No. 44, p. 4.

[82] Javier Sanchez Mejorada, "Communication and Transportation in Mexico," *Annals of American Academy*, 208:78–93, March, 1940.

[83] Paul Bloom, *op. cit.*, pp. 349–351.

railway mileage, however, 24 per cent was British, with the remaining foreign investment of negligible proportion. The process of nationalization is continuing, with the properties of the Brazil Railroad Company being expropriated in 1940.

Shipping

Increased shipping and shipbuilding might be an outlet for a certain amount of investment. Vast areas of Latin America do not receive regular service, and the desire for national merchant marines has been intense. Nevertheless, considerable basis for skepticism exists as to whether such an investment is a profitable outlet for private funds. Construction and operation of a merchant marine through subsidization or government ownership and management are, of course, different matters.

Analysis of investment possibilities in this field must be restricted to a relatively long-range period, as amortization of this type of outlay is spread over many years. Hence proposals to construct a vast fleet of wooden sailing schooners to minimize temporary shipping shortages in the Caribbean are of but wartime interest.[84] In the age of clippers of the air, even clean-limbed clippers of the sea are an anachronism of purely short-run significance.

Most of Latin America is served by lines under foreign registry, such as the Grace and United Fruit fleets mentioned in another connection. In view of the operating records of such fleets, as cited in the preceding chapter, few of these lines are likely to launch large-scale expansion programs. There does seem to be a desire in Latin America, however, for national merchant marines. As of 1939, Latin American steam and motor vessels of over 100 tons aggregated 2,018,000 gross tons (of which Panama accounted for 718,000), contrasted with the world total of 65,283,000 tons.[85] The ranking merchant fleets of Latin America just before World War II were Panama, Brazil, Argentina, and Chile, in that order, with other nations possessing very small fleets.[86] These totals do not include the small coastal or river steamers of less

[84] Wayne Taylor, "Wood, Wind, and Sail—the Coffee Fleet," *Foreign Commerce Weekly*, 7:3–5, 41–42, May 23, 1942.

[85] League of Nations, *World Economic Survey, 1939–1941*, p. 245.

[86] *Inter-American Statistical Yearbook, 1940*, p. 443.

than 100 tons, nor do they include sailing vessels. Nevertheless, it is apparent that Latin American merchant marines are in an embryonic state of development.

World War II has emphasized the dependence of Latin American upon foreign-owned and operated shipping. In 1941, the ships arriving in Argentine and Brazilian ports were largely of foreign registry, as these nations discovered when the exigencies of war forced the withdrawal of many foreign vessels. In that year, two-thirds of the net registered tonnage entering Argentine ports was British, United States, or Norwegian.[87] Brazilian ships accounted for 5 per cent of the total, with other Latin American ships also contributing small tonnages. Although the majority of ships clearing through Rio de Janeiro and Santos, leading Brazilian ports, in 1941 were Brazilian, most of these vessels were small.[88] Brazilian vessels accounted for less than half the tonnage operating through Rio de Janeiro, and less than one-third the Santos tonnage. The one nation south of the Rio Grande that appeared to have abundant shipping was Panama, but this situation arose from a legal rather than an economic foundation. At the end of 1941, ships flying the flag of Panama numbered 237 and had a gross tonnage of 1,344,345.[89] Very few of these ships, however, were locally owned, and few touched Panamanian ports.

The desire for a thriving national merchant marine seems especially strong in Argentina and Brazil, the two ranking nations of South America. Both have small fleets, both depend upon foreign lines, and both apparently desire vast increases in their merchant tonnage. Argentina has not wanted a merchant marine merely to avoid paying large sums in freight, since this would also reduce foreign ability to buy her products. Primarily, she desires a domestic fleet to accentuate economic progress in remote areas of the nation, such as southern Argentina.[90] Specifically, these areas might be connected with countries that could use Argentine products and furnish some much-needed imports, but

[87] William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America*, 11:60, April–May–June, 1942.

[88] *Ibid*, p. 88.

[89] "Panama: Economy of a Strategic Nation," *Foreign Commerce Weekly*, 8:40, July 4, 1942.

[90] "Argentine Merchant Marine," *Bulletin of Pan American Union*, 75:62–64, February, 1941.

which currently have no adequate ocean ties. These nations might include Peru, Ecuador, Venezuela, Colombia, Cuba, and even countries outside the Western Hemisphere. Most shipping lines are now designed to link Argentina with Europe or the United States. A merchant marine that would thus increase economic development would be, it is widely believed in Argentina, a socially profitable and expedient measure.

Brazil, with her enormous coastline, great network of navigable rivers, and huge undeveloped areas, also seeks a merchant marine. That nation has 5,717 miles of coastline and 22,929 miles of inland waterway, yet the gross tonnage of her ships in 1940 was but 513,176 tons.[91] This included 276 ships, but most of these were restricted to coastal and inland transport. Such tonnage could readily be utilized on the Amazon system alone, if the region were systematically developed. During 1940, fourteen vessels with a total tonnage of 68,191 tons were added, and others totaling 19,412 tons were added during 1941. Hence, ship sinkings of Brazilian vessels during war came as a cruel blow to a nation just beginning to expand her merchant marine. This expansion program has been financed in large part by a general tax on imports and exports.[92] This tax is a small levy on the weight of all exports except coal and all imports except a few petroleum products. This levy was instituted not long after the outbreak of World War II, and it has been raised from time to time.

At a conference convened to study the problems and feasibility of creating Latin American merchant marines, some rather negative conclusions were reached as to the economic nature of such a venture.[93] In order to cast some light upon hemispheric shipping as an investment, the history of the industry generally was discussed. Shipping has long been a "sick" industry, in the financial sense, in many nations and over long periods of time. Even Great Britain, it was claimed, has received small dividends in recent years and has failed to charge adequate depreciation. Deterrents to profitable operation are manifested by a poor earning record on the part of the United States and other

[91] "Merchant Marine of Brazil," *Brazil Trade Journal*, 1:15, June, 1941.

[92] "Brazil—General Tax on Imports and Exports," *Foreign Commerce Weekly*, 5:12, October 18, 1941.

[93] U. S. Maritime Commission, *Inter-American Maritime Conference*, 1941, pp. 313–320.

merchant marines. These difficulties include labor troubles; uncertainty as to subsidies; cyclical tendencies; and excessive vulnerability to world factors such as war, tariffs, depressions, and crop failures. Further investment, it was observed, has been coming largely from those interests that possess previous outlays to be protected.

The earning record of United States flag lines serving the American republics during the 1936–1939 period was examined. Of the principal lines studied, total revenue was $113,059,000; total operating expenses $93,344,000; other expenses and charges $21,152,000, leaving a net loss (excluding subsidies) of $1,437,000. The specific earning record varied from 17.6 per cent loss in 1936 to 4.2 per cent profit in 1939. Of revenue 74 per cent came from freight, 23 per cent from passengers, and 3 per cent from other sources.

This survey of both the general and the specifically hemispheric experience of the United States furnished the basis for several conclusions. First, shipping is an exceedingly hazardous business. Second, to amortize an investment a 20-year operating span must be anticipated, and that period will include one or more cycles of overexpansion followed by depression. Hence, private investment is extremely speculative. Third, such shipping is largely international, and hence is subject to cutthroat competition with little protection save subsidies. Fourth, except where associated businesses can provide cargo, or where there is a heavy government subsidy, the instances of successful operation of steamship lines beyond the period of the ordinary lifetime of the vessels are exceptions. Fifth, merchant marines may be of value as naval auxiliaries, but, as instruments for developing foreign trade, they may not be worth the subsidies needed to maintain them.

Highways

Currently, the two most rapidly expanding modes of transport in Latin America are highway and air transportation. Highways and airlines are more independent of the terrain than railroads and ships, and they can penetrate the vast interior reaches of the continent. If there is to be any large-scale investment in Latin American transport, it is likely to be in these spheres.

Highway statistics are unnecessary at this point, but a single criterion of current development will suffice. Figures relating to the number of

people per vehicle afford some insight into the state of highway and motor traffic development. In 1938, there was one vehicle to every four persons in the United States. Comparable figures for Latin America, however, range from Uruguay, with 33 persons per vehicle, to Nicaragua, with 1,342.[94] Ratios for other selected Latin American nations include Argentina, 46; Cuba, 92; Chile, 104; Costa Rica, 180; Brazil, 281; Colombia, 318; Peru, 348; Paraguay, 444; Dominican Republic, 598; Guatemala, 628; Ecuador, 728; Bolivia, 909; and Haiti, 1,235. The world average is 48 persons per vehicle, which is less than the average of all but Uruguay, Panama and the Canal Zone, and Argentina. Note also the characteristically sharp divergence between the apparent development in the various nations of Latin America.

The proportion of motor vehicles is negligible in such nations as Brazil, Bolivia, and Peru. Apparently some of the areas possessing the greatest economic potentialities have the least adequate motor transport. Although highway development has been proceeding rapidly in many of these areas, regions of literally millions of square miles have yet to be penetrated by adequate highways. Much of the highway mileage in Latin America is between capitals, along the coasts, and in the fertile valleys or broad plains. In the future, roads will have to be flung across mountains, through swamps and jungles, and through dense forests. Much of this road building has not been technically feasible until relatively recently.

The most highly publicized road in Latin America is the Pan American Highway, which is really not a single highway. It is rather a loose aggregation of separate roads: some good, some bad; some concrete, some loose dirt or trail; some old, and some new. It is significant because to many nations it constitutes the lone through artery, but it does not penetrate the vast untapped areas of South America. Neither does it encompass the hundreds of feeder roads needed to connect the Pan American Highway with the Caribbean and Pacific ports. When this highway is completed, the task of building highways in Latin America will just be well started; yet this project does symbolize the reasons why highways are being extended so rapidly in the nations to the south.

In the report of Secretary of State Hull, accompanying the draft of the proposed law authorizing $20,000,000 to aid Central American re-

[94] *Inter-American Statistical Yearbook, 1940*, p. 455.

publics in building the road, seven reasons for such a highway are advanced.[95] First, it would improve transportation within and between the several countries of Central America and the United States. This would enable Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama to pool their surplus commodities and avoid periodic shortages. It might also enable the United States to import more corn, rice, and beans from this area. Second, the road would aid in the long-range development of new lands and resources in Central America. This would, in turn, allow an increased consumption of United States imports. Third, it would provide necessary employment and purchasing power during the difficult wartime and post-war periods. Although these nations are basically oriented toward the United States, the closing of European markets nevertheless occasioned considerable economic dislocation. Fourth, it would increase United States tourist traffic in Central America. Instead of being confined to sea ports and along the coasts and rivers as now, tourists could gain access to hitherto inaccessible interior regions. Central American travel in the United States might also increase somewhat, although such traffic would scarcely be a major item in the near future. Fifth, an increased market for United States automobiles, parts, garage equipment, and similar materials would be created. Sixth, the road should have some defense value, since it would provide an overland artery to the Canal Zone and would increase military mobility. Seventh, 80 to 90 per cent of the amounts expended by Congress on the road would ultimately be spent in the United States.

For the remainder of Latin America, it is likely that extension of highways into the vast interior regions is of paramount importance.[96] Many of the areas with unexploited resources—such as the Amazon, the Peruvian interior, and the Bolivian Jungas—are now virtually inaccessible. Roads into these areas might facilitate subsequent heavy investment in agricultural, forest, and mining industries. Even in nations with relatively mature highway systems, such as Argentina and Chile, connecting roads are badly needed.

Such extension into the interior is probably the most spectacular current and future highway trend, but there are at least two other impor-

[95] 77th Congress, 1st Session, *House Document 197*.

[96] For an analysis of probable future trends, see U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 62.

tant tendencies. One of these is the trend toward more adequate handling of traffic over existing and future roads. This will involve such improvements as grading, cutting, filling, and surfacing, but it will also necessitate gasoline stations, garages, and similar facilities. To accentuate the second tendency, which is the new emphasis upon tourist travel, not only better roads but the installation of hotels, eating places, and similar properties will also be required.

It must be emphasized that the strategic importance of recent highway construction has not always been in direct proportion to length. Thousands of miles might be added to highways stretching along valleys, coastal plains, or plateaus, without having much economic impact. On the contrary, even short road extensions across mountains, jungles, or deserts may open up vast and hitherto unexploited areas. The short extensions of the Peruvian Trans-Andean Highway have thus attracted attention out of proportion to the actual mileage involved.[97]

The highways of Latin America are being and probably will continue to be developed by public capital, either local or foreign. Filling stations, hotels, warehouses, and other resultant enterprises, however, may well be established through private enterprise. Thus it has been estimated that, whereas $80,000,000 might suffice to extend the Pan American highway through most of Latin America, $200,000,000 would be required to build roads, hotels, gasoline stations, et cetera.[98]

Air Transport

Air transportation is logical for most of Latin America. In South America, the population is located around the fringes of the continent in a few great urban centers. The interior regions have a very low population density and are dominated by high mountains, great jungles, and bleak and rugged plateaus. The terrain is such that land transportation, even the relatively adaptable highway, is at a marked disadvantage. There are but three great railway networks on the continent, centering around Rio de Janeiro, Buenos Aires, and Santiago. Highway development is still largely restricted to the coast, river valleys,

[97] Edwin W. James, "Trans-Andean Highway Links Amazon," *Foreign Commerce Weekly*, 8:8–10, August 8, 1942.

[98] "Lifeline of the New World—The Pan American Highway," *Foreign Commerce Weekly*, 6:34–35, January 24, 1942.

and populated centers. A large part of the continent can utilize only river streams, or trails traversable only by mule, cart, or foot. In the Amazon basin, an area two-thirds as large as the United States, only the river and its tributaries furnish much-needed transport. The continent obviously requires some sort of transportation that can be relatively independent of topography, and air transport seems to answer that need. Such airlines, however, must be willing to penetrate into interior regions and to haul freight as well as passengers. In Central America, Mexico, and the West Indies, the situation is much the same. Areas are smaller and highway development is proceeding rapidly, but still the terrain is formidable. In Central America, for example, mountain, plain, valley, and jungle are all in close juxtaposition. The success of air freight in this region manifests the need for some variety of rapid, flexible transport. Indeed, this region has demonstrated the role that air transport can play in the movement of large volumes of freight.

The growth of air transport in Latin America has been fully as spectacular as the expansion of airlines in the United States. In Brazil, for example, the number of airline miles increased from 4,301 in 1929 to 37,575 a decade later, despite the impact of the economic depression.[99] The average monthly number of passengers rose from 257 to 6,318, and the average pounds of freight per month increased from 891 to 85,292. The second World War, of course, measurably increased even the rather impressive 1939 totals in Brazil and throughout Latin America. Today, there are nearly as many miles of airlines in Latin America as there are railway miles,[100] and the latter total is in the process of being exceeded. In only six of the twenty republics, notably Argentina, does railway mileage exceed airline mileage. All the Central American nations and two South American countries have more airline mileage per square mile of area than has the United States. In 1927, there were 5,700 miles of scheduled airlines in South America; in 1940, that total had increased to 66,300 miles, and 15,255,000 miles actually flown.[101] As indicated later, even 1940 totals have now been dwarfed by expanded operations resulting from World War II.

[99] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:140, April–May–June, 1941.

[100] 77th Congress, 1st Session, *House Report 1543*, pp. 3–4.

[101] *Ibid.*, p. 13.

Despite such growth, Latin American air transport remains in an embryonic state. As yet, most routes do not penetrate the interior, and vast areas continue to lack air transport facilities. Service in many nations is still limited to passenger traffic, without adequate facilities for handling freight. Improvements even in passenger service need to be made if Latin America is to diminish its isolation. More stops must be included, further night flying inaugurated, frequency stepped up, and actual air speeds increased.

Two recent airline developments in Pan America seem to indicate what the future may hold. One of these is the amazing spread and speed-up of the international airlines serving Latin America. Pan American Airlines already blanketed much of Latin America by early 1940, operating with its several affiliates some 37,000 miles of Latin American air routes.[102] This total was about equal to United States domestic air mileage and represented an investment of over $25,000,000. Even at that date, the system had minimized its dependence upon subsidies and air mail payments. Since that time, the war drastically accentuated Pan American service. By 1942, the bulk of all inter-American mail, passenger, and express traffic was routed by air. In 1942, the Pan American clipper fleet covered more than 1,000,000 miles a month, maintaining over 100 planes in the air practically every hour of the day over intra-hemisphere routes.[103] In contrast to 11,000 passengers per month carried before the emergency, 1942 traffic had reached a total of 26,000 per month. Mail and express cargoes had increased to nearly 750,000 pounds a month. Pan American Airways routes and associated lines had been extended to cover Axis-controlled lines, and by 1942 mileage had increased from 37,000 to 57,000 miles in Central and South America. Perhaps even more significantly, new services had been inaugurated, maintenance facilities had been doubled or trebled, and more flights had been added. Most new schedules were to provide a high-speed express route to the capitals and metropolitan centers of the hemisphere. Pan American was also flying at least 150,000 miles per month of extra flights between the United States and Central and South America. The airline has not yet fully achieved

[102] Civil Aeronautics Board, *Intercontinental Air Transportation*, by Melvin Hall, May 16, 1940, p. 2.

[103] "Pan American Airways Expands Hemisphere Service," *Bulletin of Pan American Union*, 76:359–360, June, 1942.

the goal of swifter, better transportation at lower rates, with no subsidies in excess of government postage receipts.

A contrasting example of the possible future of investment in Pan American air transportation is the experience of Central American lines. In five Central American nations, a group of flag companies known as TACA established extensive air freight service.[104] This line has totaled some 5,600 miles, connecting capitals but also penetrating deep into jungle hinterlands. It has transported many passengers who have never ridden in a railroad or car, but its primary business is freight. The line has brought from the jungle over 2,000,000 pounds of chicle annually. It brings out ore and takes in mining machinery, and it transports fuel oil by tanker plane. It moves tractors and live cows and an incredible variety of supplies and equipment. This line has carried more freight in a year than all domestic airlines of the United States combined.

Conclusion

Estimate of possible investment outlets in Latin America is made very difficult by inadequate exploration, uncertain world conditions, and significant impediments. Nevertheless, certain observations concerning the principal spheres within which such investment might be concentrated can be hazarded. Since most of the direct investment thus far focused in Latin America has been in raw materials, some future outlays in this sphere are probable. Many of the great staple raw material industries have attained maturity and have even reached a chronic state of overproduction. In other traditional agricultural or mining industries, such as copper and petroleum, further investment seems likely. In addition to these already developed industries, future outlays in a host of currently undeveloped raw materials seem probable. Such materials might include babassu oil, yerba maté, and a host of strategic and critical materials. Investment in the latter raw materials cannot be predicated, however, upon the assumption that other areas formerly producing such commodities will forever be inaccessible.

Investment in light, or consumer's goods, industry is growing and will probably continue to grow, especially with the wartime impetus. Nevertheless, it is dubious whether even expansion of such industry is

[104] Civil Aeronautics Board, *Commercial Air Transportation in Latin America*, by Melvin Hall, November 7, 1940, pp. 11–12.

likely to furnish a major outlet for investment. By far the greatest potential area of investment in Latin America, if uncertain and currently precluded by impediments, is heavy industry. Although coal resources in Latin America are presumably inadequate, importation of coal or the increased use of petroleum and water power may be feasible. Petroleum and water as sources of fuel and power are of tremendous potential importance in Latin America, although hydroelectric power has not yet been greatly developed. More than sufficient quantities of high-grade iron ore, plus manganese, antimony, and other alloy metals, exist south of the Rio Grande. On the basis of fuel, iron, and alloy resources, prospects for a steel and heavy industry seem brightest in Brazil. Very formidable obstacles to extensive development, however, still exist. They include labor shortages, inadequate local transportation, domestic legislation, and hitherto unstable domestic economies. These impediments will be discussed in some detail in the next chapter.

Finally, further investment in Latin American transportation facilities is required if general economic development is to be feasible. Railroads, although very essential in some areas and requiring improvement and extension, no longer seem consistently profitable investment outlets. Merchant marines, perhaps desired as a part of public policy, have revealed grave deficiencies as outlets for private capital. Highway transport, which is growing enormously throughout Latin America, presumably remains a field for public rather than private capital, except in ancillary fields. Air transport is perhaps the most spectacular outlet for transportation investment, especially in improved passenger facilities and enlarged freight services.

Chapter 7

IMPEDIMENTS TO CAPITAL INVESTMENT IN LATIN AMERICA

THE DRAWING of capital from an available source and directing it to a region of relative scarcity make an international problem of many and variable factors. Certain of these factors appear as impediments to future capital investment in Latin America. The purpose of this chapter is to analyze those impediments.

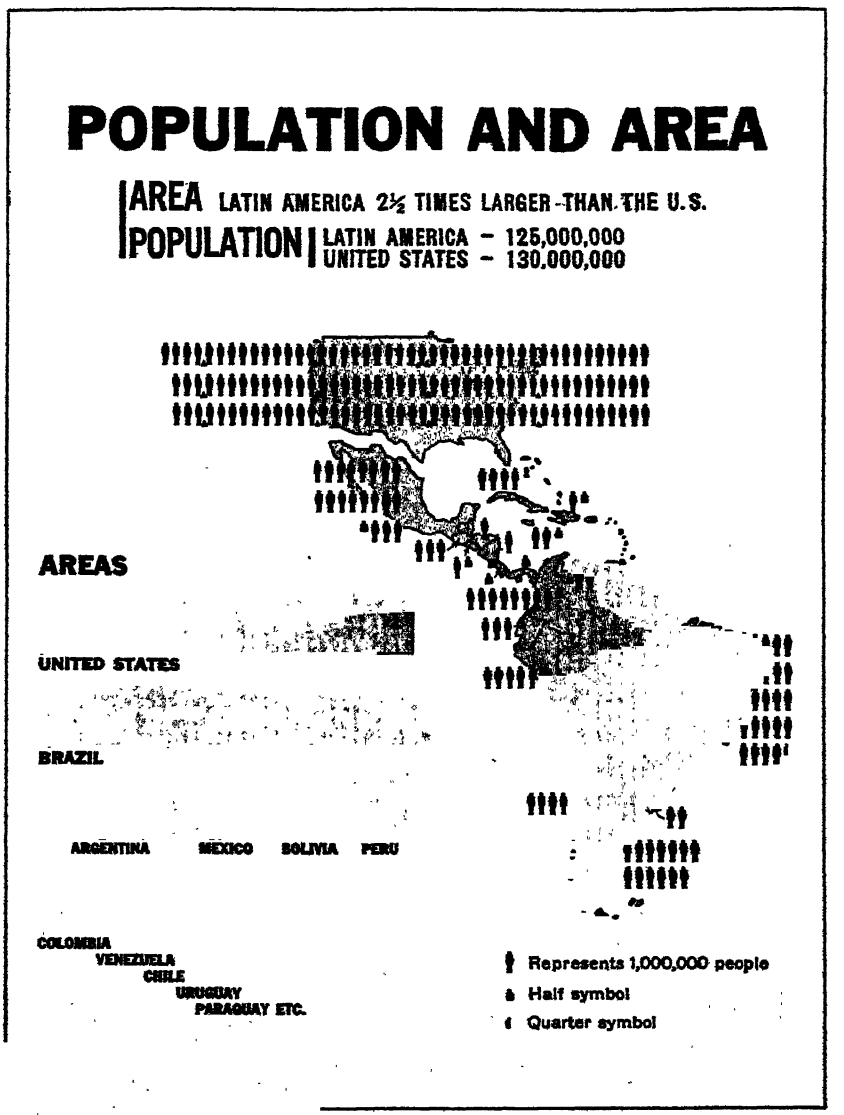
Population Characteristics

One of the most fundamental obstacles to economic development in Latin America is made up of a group of problems centering around population. The size of Latin American population in relation to area, its growth, density, concentration, and composition—all these are related to future economic development in the twenty republics south of the Rio Grande.

Latin America's economic development has been handicapped by a shortage of people in relation to the vast area in which they live. The total area of Latin America is in excess of 8,000,000 square miles. Brazil alone, the largest country in the group, is 200,000 square miles greater in area than the United States.[1] Chile, the eighth country in square miles of area, is twice as large as the state of California and four times the size of Nebraska. Mexico, the third largest country of Latin America, with an area of 767,000 square miles, is as large as the combined states of Wisconsin, Nebraska, Ohio, Indiana, Illinois, Minnesota, Missouri, Michigan, Kansas, Iowa, Vermont, Connecticut, North Dakota, and South Dakota. In addition to the countries mentioned, Argentina ranks second in area, followed by Bolivia, Peru, Colombia, and Venezuela, in that order. Paraguay and Ecuador complete the list of

[1] See Appendix, Table 32, p. 424, and Max Winkler, *Investments of United States Capital in Latin America*, p. 23.

the ten largest countries. The total area of Latin America is twice that of Europe.



The estimated population of Latin America is about 125,000,000.[2] This number corresponds roughly to the population of continental

[2] *Inter-American Statistical Year Book, 1940*, p. 51.

United States, but the area of Latin America is over two and one-half times greater than the United States. These twenty nations, extending over 16 to 19 per cent of the world's area, contain only about 6 per cent of the world's population.[3]

Brazil, with a population of 44 million, has the largest population of any Latin American country.[4] By way of comparison, this figure is less than the combined populations of the states of New York, Pennsylvania, Illinois, Ohio, and Texas.[5] Mexico, next ranking country in numbers of people, has a population of 19 million, followed, in order, by Argentina with 12 million, Colombia with 8, and Peru with 6. Chile, ranking sixth in population, with 4 million, has fewer inhabitants than the states of Kentucky and Alabama combined.[6] Cuba, Venezuela, Bolivia, and Guatemala, in order, complete the list of the ten most heavily populated nations of Latin America.

Another observation to be made in respect to Latin American population is concerned with its growth. The rate of increase in population varies considerably. Although the population of the area has increased 227 per cent during the past century, much of the increase took place before 1900.[7] Population increase in many of the areas is beginning to taper off, and there is some question as to the capability of some of the races to maintain rates of increase sufficient to support a pioneer or developmental type of expansion. The European populations show rates of increase capable of supporting expansion, although there are several colonies of pure Europeans which have failed to maintain growth in numbers. Negro populations show a capacity to increase rapidly, notably in Haiti, but this type of island expansion offers no solution of the fundamental scarcity in large land areas. The Indian race is the only one in Latin America which does not seem to maintain a rate of increase to support settlement expansion.[8] In some portions of Latin

[3] Preston James, *Latin America*, p. 3. See also Howard J. Trueblood, "Raw Material Resources of Latin America," *Foreign Policy Reports*, 15:114, August 1, 1939.

[4] See Appendix, Table 34, p. 426.

[5] U. S. Department of Commerce, *Statistical Abstract of the United States, 1940*, p. 3.

[6] U. S. Department of Commerce, *Statistical Abstract of the United States, 1940*, p. 3.

[7] A. A. Moll, "Disease and Population in Latin America," *Bulletin of Pan American Union*, 75:540, September, 1941.

[8] Preston James, *op. cit.*, p. 830.

America, Indians are maintaining themselves as an element in the population, and undoubtedly characteristics of this racial group must be considered in any future development.

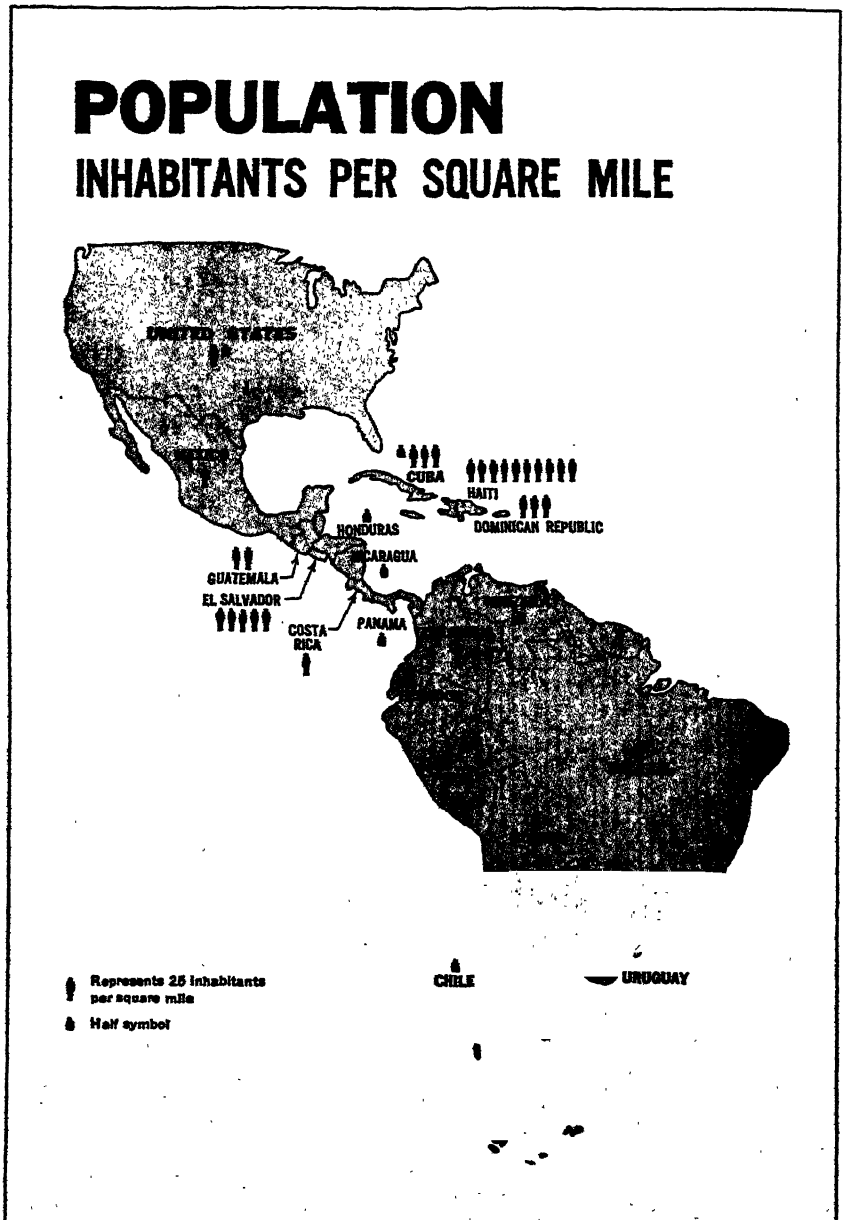
It is difficult, of course, to find uniform trends in population growth among the various sections of the population. Some groups of people tend to produce large families regardless of circumstances. A high birth rate is not only an economic matter—it is also one of racial characteristics, culture, and inherited traditions of living.[9]

There have been various estimates made of population density in Latin America, but, despite differences in methods of presentation, all show the area as a whole to be one of the least densely populated in the world. Population density in South America has been estimated at 12.5 per square mile, as compared with the world average of 41, and the United States average of approximately 43.5. This same estimate places the figure for Central America and the Caribbean countries at 36.2.[10]

A compilation in terms of inhabitants per square mile of area shows a range from 259 in Haiti to 5.2 in Paraguay.[11] El Salvador with 126.9, Cuba 90.1, the Dominican Republic 76.4, Guatemala 58, are all in excess of 43.5, the figure for the United States. The six largest South American countries, in terms of size of population, show Brazil with 13 inhabitants per square mile, Argentina 11.9, Colombia 20.2, Peru 12.7, Chile 16.1, and Venezuela 9.8. Mexico, with the second largest population in Latin America, has 24.1 people per square mile.

One characteristic feature of population distribution in Latin America is its tendency to concentrate in clusters, generally around small villages and towns, and also in larger modern cities.[12] Rural population shows this same tendency, but on the whole there are few regions of concentrated settlement with considerable densities. There are no dense rural populations in the vast areas of Latin America comparable to those existing in China and India.[13] The areas of concentrated settlement, unlike those in North America, are distinct from one another. Relatively little or no overlapping is evident between settlements and, with

[9] *Ibid.*
[10] Howard J. Trueblood, *loc. cit.*
[11] See Appendix, Table 34, p. 426.
[12] Preston James, *op. cit.*, pp. 4–8.
[13] Royal Institute of International Affairs, *The Republics of South America*, p. 76.


POPULATION
INHABITANTS PER SQUARE MILE
UNITED STATES
CUBA
HAITI
DOMINICAN REPUBLIC
HONDURAS
NICARAGUA
GUATEMALA
EL SALVADOR
COSTA RICA
PANAMA
CHILE
URUGUAY
Represents 25 inhabitants per square mile
Half symbol

few exceptions, political boundaries pass through areas of relatively sparse population.[14]

Some large cities have developed as a result of this pattern of clustering and have constituted a strong attraction for population to move toward such centers rather than toward the frontier. In fact, colonization of the interior has not been carried on to any appreciable degree. There have been waves of "pioneering" in the sense that people have gone to frontiers to exploit natural resources, but Latin America is spotted with examples of developments which have shortly turned into abandonments. Such movements have not contributed to permanent economic development, as was true in the frontier expansion of the United States.

This tendency toward concentration of population in clusters is seen particularly in countries which have both mountains and lowlands. The low plains of Bolivia, for example, constitute approximately three-fifths of the total area of the country. The remainder of the country, in the highlands of the Andes, is the most densely populated and productive section of Bolivia. Approximately three-fourths of the population of 3,000,000 lives in the western two-fifths of the area.[15] This same situation exists in Peru, where nearly three-fourths of the people are located in the sierra region, which accounts for approximately one-third of the total area. The coastal plain, about one-tenth of the area, contains most of the remainder of the population. Ecuador's population is concentrated largely in the plateaus of the Andes, and most of Colombia's inhabitants live in areas with elevations in excess of 4,000 feet. Venezuela likewise has her population concentration in the northern highlands and in the vicinity of the principal oil-producing area.

Chile differs from these countries in geography and economic organization, but more than three-fifths of her population is concentrated in the central region constituting one-fifth of the nation's total area.

Argentina and Uruguay show a different distribution of population, whose characteristic feature is marked urbanization. Three-fifths of the population of Argentina is urban, more than 28 per cent being in greater Buenos Aires. Two-thirds of the inhabitants are concentrated

[14] Preston James, *op. cit.*, p. 6.

[15] The following material on concentration of population is taken from U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1–20.

in four provinces, which represent slightly more than one-fifth of the total area. Nearly one-third of Uruguayan population is concentrated in the capital city, which had an estimated population of 684,000 in 1937.

The Brazilian population is concentrated in an area within 100 miles of the coast, especially in the southern portion, where three-fourths of the people live. Vast areas in the Amazon basin have a population which does not exceed two persons to the square mile. The desire to colonize and the pressure of population in some areas have had little effect upon the penetration of the interior.

The population of Mexico, the second most populous country of Latin America, is most heavily concentrated in the central plateau, especially in the areas adjacent to Mexico City. This central plateau region, however, constitutes approximately three-fourths of total Mexican area.

Approximately one-fourth of the population of Cuba is concentrated in the Province of Habana which accounts for only 7 per cent of the total area.

The population of Guatemala, the largest of any Central American country, is predominantly rural. It is largely concentrated on the interior plateaus and on the comparatively narrow Pacific slope of the Cordillera. The Atlantic slope, which constitutes the greater part of the country's area, is much more sparsely settled.

Another feature of Latin American population to be considered in terms of future economic development is the variety of racial and cultural elements of which it is composed. Racial contributions have come from every part of the world. The indigenous natives were probably of Asiatic stock, and are commonly referred to as Indians. During the three centuries of Spanish and Portuguese rule the principal immigration was that of Iberian Europeans. To them were added Negroes brought from Africa, the immigrants from all European countries, and in more recent years from Japan.

The three principal elements in the present population are Indian, Negro, and white or European, and each of these elements includes a wide variety of strains. The distribution of these racial strains varies not only among the nations of the area but also within each country. Race mixture has gone on with little or no restriction, and today over half

the population is of mixed ancestry, the mestizo (a mixture of Indian and European) being the most common racial type.[16]

There is no agreement upon the definition of racial terms, and it is somewhat hazardous to classify the nations of Latin America according to the dominant racial element. Nevertheless, the diversity of racial strains throughout the area may be emphasized by the following brief description of the populations of the various countries.

Argentina and Uruguay are countries in which the population is made up principally of unmixed European descent. Colombia is predominantly mestizo, but the population also includes Negroes and Indians. Venezuela, likewise, is primarily a mestizo country, although she has a considerable portion of Indian blood. Paraguay and Chile are predominantly mestizo, although an Indian element is included in the population of both countries. Ecuador, Bolivia, and Peru are the three South American countries where the Indian population forms a substantial part of the total and is a most important factor in problems of social and economic progress. Divisions between mestizos, whites, and Indians are more clearly defined in these three countries than elsewhere in the area. Brazil's population contains a greater mixture of different kinds of people than any country in Latin America. Although the main elements are Portuguese, Indian, and Negro, the population has been considerably mixed by immigrants from Europe and Asia. Racial distinctions in Brazil are not clear cut, however, owing to the racial tolerance of the Portuguese.[17]

Mexico and Guatemala are predominantly Indian countries. The populations of Nicaragua, El Salvador, and Panama are mestizo. Honduras presents a mixture of Spanish and Indian with Negroes predominant on the Caribbean coast. Costa Rica's population is made up of white and Indian ancestry on the Pacific side, whereas over one-half the people on the Caribbean side is Negro. The people of Cuba are, for the most part, descendants of early Spanish settlers and more recent European immigrants but there are concentrations of Negroes and mixed races particularly along the coasts. The population of the Dominican Republic is mixed, Negroes, and European extraction—chiefly Spanish. Haiti's population is predominantly Negro.

[16] Preston James, *op. cit.*, p. 8.

[17] See Royal Institute of International Affairs, *The Republics of South America*, p. 60.

No attempt is made here to inquire into all the problems associated with such diverse racial and cultural elements, but, in speculation concerning future economic development in the area, such population characteristics are of significance. Differences in degrees of assimilation, language, attitudes toward government, religion, wealth, foreign influence, and a host of other aspects of life do not offer a common unified approach toward a combination of human and natural resources. Eagerness to accept modification of time-worn techniques of production may be characteristic of one section, whereas indifference prevails in another. So-called modern civilization may be attractive to some but not considered an advancement to others. A mechanistic type of economic life cannot be imposed upon a population of such diverse characteristics without serious consideration of the tremendous problems involved in incorporating various cultural elements into a modern civilization.

The training of skilled technicians and business managers is necessary if a more advanced type of economic life is to be developed in Latin America. The environment for fostering such training and development, however, is lacking. Populations living for generations in the atmosphere of a relatively simple agricultural mode of life do not easily adjust their ways to the pressure of modern industrialism. The extensive development of resources in search of immediate profits has created an atmosphere in which the speculative aspects of production have been stressed. The use of foreign capital, particularly in the extractive industries, has aided the development of this speculative spirit. Elements of stability and permanence in economic life are more likely to develop from steady, intensive use of resources. This type of productive effort requires efficient organization and an atmosphere in which the spirit of long-run permanent gain is emphasized and maintained. The transition from one set of attitudes toward use of resources to the other is a cost not easily calculated, but it must be included in any estimate of future investment in Latin America.

Judgments of the qualitative aspects of Latin American labor supply are hazardous. Climate, racial characteristics, health, education, working conditions, traditional attitudes toward greater earnings and accumulations—all these are factors affecting the productive ability of laborers.

Population and Economic Development

The characteristics of Latin American population discussed above have economic implications that are bound up with a tangled series of cause and effect relationships. A relatively small population living on a large geographical area must be regarded as conducive to a lack of sufficient labor to be combined with capital. This situation is one which cannot be modified immediately, even though large supplies of capital come from abroad. Lack of sufficient quantities of labor makes difficult an intensive development of land. Inability to expend productive effort in an intensive manner inevitably results in less efficient and hasty types of short-run exploitation of resources. The resultant product of such methods is not conducive to the expansion and settlement which ultimately leads to steady and permanent economic development. Hence, a vicious circle is drawn in which production is influenced by scarce population and at the same time is a contributing element to the persistence of such a situation. There are exceptions to this pattern of events, but it is true, in general, throughout Latin America. Brazil, a country whose natural resources offer attractions for capital investment, is an outstanding example of the pattern described above.[18]

Small population is not only a handicap in the sense that intensive utilization of resources is retarded, but the progress of large-scale production is also affected by numbers of people. The low labor cost which permits strong industrial nations to develop large-scale industry is not solely a matter of resources or superiority of certain types of labor. Linked with mass production techniques in such countries as the United States is the existence of large domestic markets and widespread purchasing power. Markets capable of absorbing large quantities of goods present a challenge to business enterprise to seek increased profits through expanded production. Increased production tends to lead, within limits, to lessened cost per unit and greater aggregate returns. Admittedly, industrial development aids in the expansion of its own markets. Nevertheless, the absence in Latin America of large domestic markets with widespread purchasing power is an important element to be considered in connection with industrial development in the area.

[18] Preston James, *op. cit.*, p. 828.

Another aspect of the sparse population is the degree to which newly created industry makes demands upon the existing labor supply. It is conceivable that new industry may draw labor from the old raw-material industries in such numbers as to increase costs of production of export commodities, thereby resulting in loss of existing markets. Industrial development may possibly be carried on with such rapidity that its relation to other branches of the economy becomes unbalanced. Thus the speed, magnitude, and direction of industrialization must be related to general economic conditions prevailing in each country.[19]

Immigration

The lack of people in Latin America in relation to area and resources has placed additional emphasis upon immigration as a necessary factor in future economic development. Inasmuch as increase in population is related to the whole problem of future capital investment in Latin America, an examination of immigration to the area is pertinent at this point.

Immigration into Brazil began as early as 1817 under official encouragement, and over 4,000,000 immigrants have entered since 1886.[20] During the nineteenth century Brazilian immigration was predominantly Portuguese. Italians began to enter after the middle of the century, and, by 1914, a total of 1,361,000 had emigrated to Brazil. Large numbers of Germans have also entered, approximately 250,000 of them having settled in the southern part of the country by 1914.[21] An important feature of Brazilian immigration in more recent years has been the influx of 60,000 Japanese between 1920 and 1929. Japanese immigrants have traditionally gone to São Paulo, but more recently they have established colonies in the Amazon basin. It is estimated that Japanese immigrants in Brazil by 1941 numbered approximately a quarter million.[22]

Immigration has also been of importance in the development of Argentina. There was virtually no immigration prior to 1850, but by

[19] George Wythe, "Outlook for Latin American Industry," *Inter-American Quarterly*, 2:36–52, April, 1940.

[20] *South American Handbook, 1941*, pp. 225–226.

[21] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, p. 4.

[22] "Jap Threat to Latin America," *Inter-American Monthly*, 1:16, June, 1942.

1928 a total of 5,740,000 had entered the country.[23] Of this total, over three-fourths were Italians and Spaniards. In the early 1920's, the proportion of Italians and Spaniards declined and that of other nationalities, particularly Poles, increased. In the period 1921–1929, Argentine immigration showed an average net of 94,250 per year. Argentina has favored immigration as a general principle, although, in recent years, laws have been modified with the object of improving the type of immigrant.[24] Over 25,000 immigrants entered both in 1937 and 1938, but by 1939 the total dropped to 4,671.

The only other countries where immigration from abroad has been of any importance are Uruguay and Chile. In 1936 the number of immigrants in Uruguay totaled 196,200, but this figure was nearly offset by 191,500 emigrants.[25] Immigration into Chile in recent decades has not been large. In the period 1920–1929 an average of 4,000 net entered the country, a large proportion of which were German.[26] The fertile valley of Chile is heavily populated under present conditions of land exploitation, but the government has set aside agricultural land in the southern part of the country as an attraction for immigrants.

The fundamental question in the consideration of Latin American immigration is whether the area will become a depository for surplus population. Here again one sees a set of complicating cause and effect relationships. Normally people move from areas of lower economic development to regions which offer attractions of higher scales of living. The future economic development of Latin America will influence immigration, and immigration will influence the economic development.

The most influential immigrants of the past in Latin America have been those with the technique and capital for organization of a type comparable to that of Europe and the United States. The significant developments in Latin American economic life have been largely directed by such immigrants. A continued or expanded influx of migrants must overcome the prejudices and restrictions arising from a new form of nationalism prevailing throughout the area. Of course the influences which make immigration of the commercial or industrial type

[23] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 1, p. 4.

[24] *South American Handbook, 1941*, p. 120.

[25] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 9, p. 2.

[26] *Ibid.*, Section 4, p. 3.

difficult will conceivably make immigration from areas such as Asia increasingly easy. Production on a subsistence level, characteristic of large portions of Latin America, may conceivably attract Asiatic peoples in sufficient numbers to increase population. Such immigration, however, is scarcely the type pictured by those who look forward to substantial long-run improvement in Latin American economic life.[27] A previous chapter dealt with the raw-material aspects of future industrialization in Latin America, but it should be observed at this point that immigration, both in its qualitative and quantitative aspects, is also a vital factor in industrial development. Further immigration into Brazil and Argentina is possible, but a large-scale influx into other nations of the area is questionable.

Severe restrictions against immigration have been increasing in extent in Latin America in recent years. In most cases, restrictions make use of the selective principle and are based fundamentally on barring undesirable elements. Since the collapse of international markets, however, the restrictive attitude toward immigrants has intensified. Increasing concern over domestic unemployment and the growth of nationalism have become important factors in this changed attitude toward immigrants. International political and military developments of recent years, and more particularly World War II, have become potent forces affecting Latin American hospitality toward immigration. Questions of duty to homeland versus assimilation and loyalty to the New World are of chief concern as Latin Americans weigh the desirability of immigration as a solution to their economic problems.

Some immigration has taken place within Latin America. Seasonal migration, particularly in the West Indies, is not uncommon, and there have been movements of people from the densely populated regions of the Caribbean to supply labor for developments elsewhere in Latin America. It has been suggested that migration from these regions would aid in providing labor in sections of Latin America where natural resources offer some possibility of future development. This type of migration, however, is not the solution to the pressing overall problem of lack of people. The need is for large influxes of laborers of a type which can readily adapt itself to industrial development.

[27] Royal Institute of International Affairs, *The Republics of South America*, p. 72.

Immigration could conceivably affect the economic life of Latin America in much the same manner as it has influenced development elsewhere in the world. Industrialization in the United States, for example, was encouraged and speeded up by the influx of large numbers of people who added to the available supply of labor necessary for the development of machine production. Improved technology tends to result in an increase in scales of living and thereby affects population growth. If the forces of industrial progress could come to operate in Latin America through the aid of immigration, the resultant improvement in conditions of life would work toward a decrease in the high death rate prevalent throughout the area. Birth rates in Latin America are generally high, but population growth has been retarded primarily because of high death rates due to poor conditions of health associated with poverty.

Land Tenure

One of the important factors impeding immigration and also operating as a general handicap to economic development in Latin America is the system of land holding. Economic and social life in Latin America has been traditionally dominated by the large estate, a semi-feudal land-holding system and social organization. The large rural estates are not cultivated by the owner but by laborers attached to the land either by contract or custom. This system of large individual holdings, characteristic of Latin America even today, is a reflection of the organization of society in Spain and Portugal when those countries were dominating this section of the New World. The holding of land in large estates, with serfs attached, was the commonly accepted type of agricultural organization, and extensive grants of land, often with native workers attached, were given to persons for important service rendered in the conquest of Latin America. In many cases these grants were expected ultimately to revert again to the crown. They became possessions of the families to whom they had been granted, however, and have remained in the control of a single family or have been transferred within the same social group.

The landed aristocracy exerts a marked influence upon the economic and social life of the area. Land owners are a distinct racial group and have preserved, more than any other economic group, the purity of the European strain. Landed proprietors constitute the backbone of con-

servative elements in the society and have a close community of economic interest with the clerical group. In opposition, is the mass of common people, greatly outnumbering the aristocracy but far less powerful because of limited wealth, education, and cultural advancement.[28]

In view of the large proportion of the population of Latin America engaged in agriculture, the status of the agricultural laborer under such a system of land tenure merits consideration. The lot of the landless worker is, in many instances, one of abject poverty and virtual slavery. Conditions under which he slaves for his master are such as to make it exceedingly difficult, if not impossible, for him to obtain even the bare necessities of life. Frequently he is allotted a small plot on the estate, generally the least productive portion, and works three or four days a week for his overlord. The remainder of his time may be given over to the cultivation of his own plot with his own crude implements. Under certain circumstances he may receive a small wage for his labor, but sometimes he is compelled to pay rent for his land out of his wages. Any remaining balance must go for necessities which he cannot wrest from his small plot of land.[29] Acquisition of land of his own is practically impossible and he remains tied to the soil of his master, denied the opportunity, under such a system, of seeing his own labor service contribute to an improvement in his economic welfare. The conditions under which agricultural laborers live are different in the various sections of the area, and in some sections his lot is not onerous.

Another form of land holding in Latin America is the holding of small farms collectively, but this system is gradually disappearing. Individual holdings of land may be acquired in Latin America, and the small tenant is not an uncommon member of the rural population.

The question of productivity of land in large holdings must take into account the smallest area which can be worked efficiently with reference to soil and climatic conditions. In the production of such commodities as coffee and sugar, for example, large land units tend to be more profitable than small units. The large estate, or plantation system, maintains its position in some instances no doubt because it is the most efficient use of resources. In other instances, however, it is essentially

[28] George M. McBride, "Land Tenure—Latin America," *Encyclopaedia of the Social Sciences*, Vol. IX, pp. 118–122.

[29] See Royal Institute of International Affairs, *The Republics of South America*, p. 199.

a device for maintaining a traditional, aristocratic, semi-feudal economic and social organization.

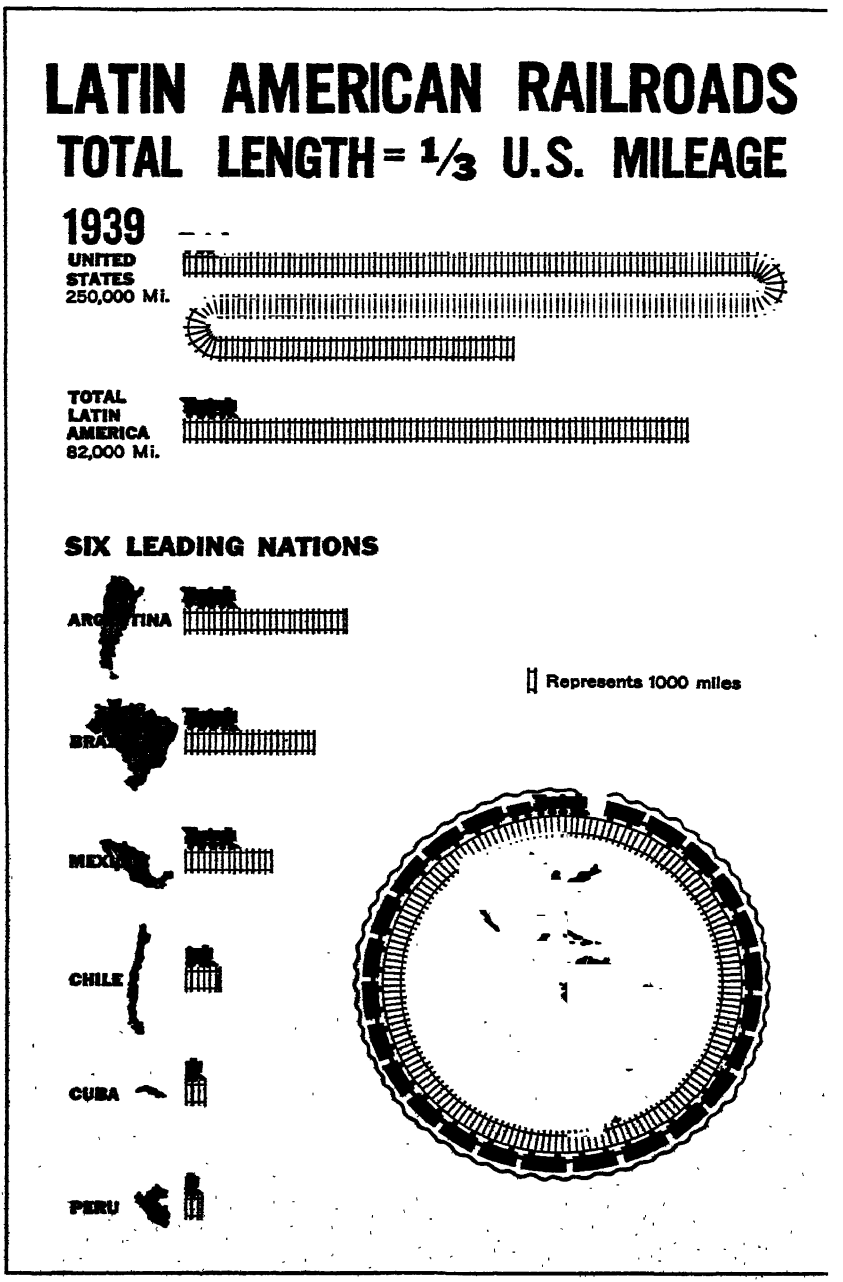
Any future large-scale investment of capital in Latin America must deal with the manifold economic, social, and political problems resulting from this traditional system of land tenure. The concentration of ownership and control of this natural resource in the hands of a distinct aristocratic class tends to develop an element of inflexibility in the use of an important factor of production. The existence of large numbers of people who live in economic servitude because of a traditional institution transplanted by early conquerors is not conducive to the development of a dynamic economic environment in which future capital investment can function best. There have been several legislative attempts to widen distribution of land ownership, Mexico's experience being the most far reaching.

Transportation

Internal transportation is a necessary accompaniment of the development of an area. In this phase of economic life, Latin America is particularly deficient. There are possibly more formidable obstacles to communication in the South American portion of the area than in any continent in the world. The Andes Mountains constitute an almost insurmountable barrier to transportation, and the southeastern edge of the Brazilian plateau is a close second to the Andes in steepness. Waterways in the Amazonian lowlands present contrasting physical conditions, but jungles, swamps, floods, and equatorial climate are severe obstacles. To date, despite the progress of engineering skill and technique, these difficulties still retard the development of necessary internal transportation facilities in many Latin American nations. Mountain and forest trails are still in use, and in portions of the Andes transport by animals and human beings has not given way to the modern forms of transportation.

Railway development in Latin America was discussed in the preceding chapter as a possible outlet for future capital investment. Further comment should be made at this point, however, concerning the limitations of rail transport as a factor in general economic development.

In terms of length of lines operated, the twenty Latin American nations have a total railway mileage less than one-third that of the


LATIN AMERICAN RAILROADS
TOTAL LENGTH = 1/3 U.S. MILEAGE
1939
UNITED STATES
250,000 Mi.
TOTAL LATIN AMERICA
82,000 Mi.
SIX LEADING NATIONS
ARGENTINA
BRAZIL
MEXICO
CHILE
CUBA
PERU
Represents 1000 miles

United States.[30] The leading nations in point of mileage are Arge tina, Brazil, Mexico, Chile, Cuba, and Peru. Total mileage in Arge tina, a nation in which physical obstacles to construction are not gre is approximately 27,000 miles. This figure is only slightly in excess 10 per cent of that of the United States.[31] Brazil's 21,000 miles railway in an area of over 3 million square miles is barely more than per cent of mileage in the United States. Mileage of the next fo countries in order of importance is: Mexico 14,000, Chile 5,500, Cul 3,000, and Peru 2,600.[32]

Railway systems in Latin America are, generally speaking, isolat and not coordinated. This lack of coordination exists not only in respe to communication between states, but also within states. Local nee seem to be of paramount importance in many of the rail lines, and mar isolated territories are not linked with the main centers of populatio Economic life, of course, has been tuned to trade with the outside worl and, as a result, the need for interstate rail connections has not appear as momentous. Several small and separate lines operate to an indivi ual port from some interior point but do not join with other lines a part of a unified system. Rails of different gauges oftentimes nece sitate transshipment between point of production and port for export.

Latin America is provided with rather extensive communication l such rivers as the Amazon, Orinoco, and Parana-Paraguay. The Am zon and its tributaries constitute the largest river system in the worl having a navigable length of 3,000 miles.[34] Hundreds of navigab side channels parallel the stream. The Orinoco, rising in the highlan between Venezuela and Brazil, is navigable for 1,000 miles during ce tain seasons.[35] Both these rivers, however, drain areas with small pop lation and relatively small economic production.[36] The Parana-Par guay, draining a region nearly as large as the Amazon basin, is th main outlet for grain and meat of northern Argentina and, as suc

[30] Calculations based upon figures in kilometers in *Inter-American Statistic Year Book, 1940*, p. 446.

[31] See Appendix, Table 33, p. 425.

[32] *Ibid.*

[33] Paul Bloom, "The Railways of Brazil," *Foreign Commerce Weekly*, 2:34 March 1, 1941.

[34] *South American Handbook, 1942*, p. 4.

[35] *Ibid.*

[36] See Sidney Zink, "The Amazon Valley, Its Economic Assets and Liabi ties." *Foreign Commerce Weekly*, 9:3, August 29, 1942.

probably has greater current economic significance than other inland waterways.[37]

The West Coast of South America is poorly served by water. Rivers in that section are short, swift, and unfit for navigation.[38] In Chile the principal rivers have only short navigable channels.[39]

River transportation is the chief means of transport in Colombia. The river systems of the Amazon, La Plata, and central plateau make 12,000 miles of network available in Bolivia, but navigability is largely seasonable.[40] The Orinoco and its tributaries are navigable in Venezuela during the rainy season, but traffic is restricted to boats flying the Venezuelan flag and owned by Venezuelans.[41] There are few navigable rivers in Mexico, and they are of little importance economically.[42] Rivers in Uruguay and Ecuador are only partially navigable.

The potential advantages of river transportation in Latin America have thus far been offset by such physical difficulties as climate, dense jungle, floods, swamps, and falls. These difficulties have been only partially overcome. Export products in certain areas are aided in their movement toward points of embarkation, but in spite of the vast extent of navigable waters this form of transportation does not serve adequately as an aid in economic development within the whole area.

The lack of adequate rail transport in Latin America has been offset, in part, by a system of coastal shipping which has served the area for generations. In Brazil, Chile, and other countries heavy freight tends to move toward the nearest port, then by water to another coastal point in the same country. Even Argentina depends upon coastal shipping to link Buenos Aires with the southern part of the nation. The preceding chapter commented upon the desire in Latin America for a merchant marine to facilitate trade beyond the hemisphere, but increasing internal trade requires additional coastwise freight service. The development of docking facilities is necessary, particularly on the west coast, where there are practically no natural harbors.[43]

[37] Royal Institute of International Affairs, *The Republics of South America*, p. 40.
[38] Isaac Lippincott, *Economic Resources and Industries of the World*, p. 511.
[39] *South American Handbook, 1942*, p. 320.
[40] *Ibid.*, p. 164.
[41] *Ibid.*, p. 597.
[42] *Ibid.*, p. 468.
[43] Royal Institute of International Affairs, *The Republics of South America*, p. 42.

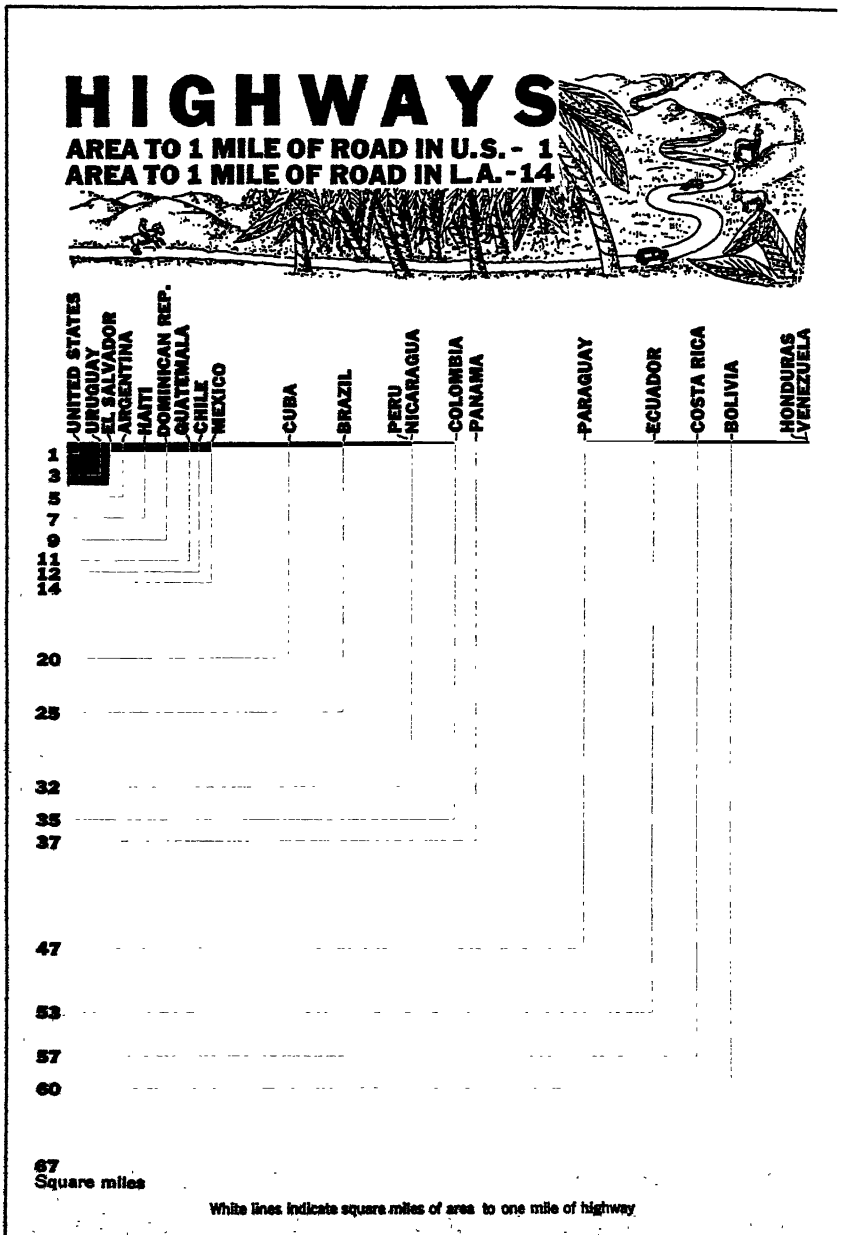
Inland transportation by highways is probably less developed than many forms of modern communication in Latin America, although considerable progress has been made in the past two decades.[44] Interest in modern highway development dates back to the early 1920's, when South American delegations met, in a series of conventions, with American highway engineers and associations interested in highway progress.

A summary of the present status of road mileage in Latin America shows a total of 555,109 miles at the close of 1939 as compared to a total of 3,065,000 miles for the United States.[45] The extent of highway facilities is even more striking when calculation is made of the square miles of area in relation to each mile of road. This relationship for all of Latin America is 14.8. In the United States the square mile area per mile of highway is 1. Vast areas in the interior of Latin America are not served by this form of transportation.

Argentina, with 253,000 miles of road, ranks first among all Latin American nations, followed by Brazil with 129,000, Mexico with 57,000, and Chile with 23,000.[46] Included among the first ten, in order, are Uruguay, Peru, Colombia, Bolivia, Venezuela, and Guatemala. Costa Rica, at the bottom of the list, has only 405 miles of road.

Argentina, one of the best-served parts of Latin America in respect to road service, has only 10 per cent of its total mileage open to traffic in all kinds of weather.[47] Construction of roads and bridges in this country is in the hands of the government, and a plan calling for construction up to the year 1947 is under way. Square miles of area per mile of road in Argentina shows a figure of 4.6, distinctly below the average for the whole area.[48] Roads in Uruguay are among the best in South America, and steady progress is being made in continued development.[49] The ratio of 3.2 square miles of area per mile of road is the lowest among the twenty countries.[50] Paraguay, on the other hand, is not so well served as the other East Coast countries and has a ratio

[44] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 63, p. 1.
[45] See Appendix, Table 32, p. 424.
[46] *Ibid.*
[47] *South American Handbook, 1942*, p. 130.
[48] See Appendix, Table 32, p. 424.
[49] *South American Handbook, 1942*, p. 578.
[50] See Appendix, Table 32, p. 424.


HIGHWAYS
AREA TO 1 MILE OF ROAD IN U.S. - 1
AREA TO 1 MILE OF ROAD IN L.A. - 14
UNITED STATES
URUGUAY
EL SALVADOR
ARGENTINA
HAITI
DOMINICAN REP.
GUATEMALA
CHILE
MEXICO
CUBA
BRAZIL
PERU
NICARAGUA
COLOMBIA
PANAMA
PARAGUAY
ECUADOR
COSTA RICA
BOLIVIA
HONDURAS
VENEZUELA
1
3
5
7
9
11
13
14
20
25
32
35
37
47
53
57
60
67
Square miles
White lines indicate square miles of area to one mile of highway

of area to road mileage over three times as high as that for all countries.[51]

New construction is moving forward in Brazil, notably in São Paulo State and in adjacent southeastern states.[52] A new highway connects São Paulo with Rio de Janeiro, and in some portions of the country new motor roads accompany the development of irrigation projects. Transport still remains a vital problem in the largest country in Latin America.[53]

In the West Coast area, Peru, although having less mileage than Chile, may boast of a fair road system. Motor facilities in this country are far beyond those of many Latin American countries.[54] Chile has a ratio of area to road mileage slightly below the overall average; but little progress is being made in Bolivia, and roads in Ecuador are inadequate.[55]

Although Mexico has some good highways, such as that between Laredo, Texas, and Mexico City, many interior points have inadequate road facilities. Colombia is forced to depend mostly upon water transportation. Venezuela, even though three important motor roads are included in the mileage, shows the highest ratio of area per mile of road in all of Latin America.[56] Vast tracts of country in the eastern and central parts are untouched either by road or rail.[57] Guatemala and El Salvador have more serviceable roads than most Central American countries.[58] Roads in other portions of the Caribbean group are on the whole inadequate. The Pan American Highway, now under construction, will serve in some measure to overcome this handicap, but many connecting roads are necessary to realize its full benefit.

Despite increasing attention to highway construction, "good motor roads," in the sense in which that term is used in the United States, are practically unknown. Thousands of miles of roads consist of gravel or dirt and are not suitable for traffic in bad weather. The construction

[51] *Ibid.*
[52] *South American Handbook, 1942*, p. 261.
[53] *Ibid.*, p. 262.
[54] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 63, p. 6.
[55] See Appendix, Table 32, p. 424.
[56] *Ibid.*
[57] *South American Handbook, 1942*, p. 598.
[58] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 63, p. 2.

of highways as connecting links to railways has been neglected generally throughout the entire area, and the inadequacy of land transport is unquestioned.

The importance of air transport in supplying the deficiencies of other forms of transportation in Latin America was commented upon in the preceding chapter. Its recognition and development serve to emphasize the necessity of providing adequate and cheap means of reaching isolated portions of the area.

Internal Transportation and International Trade

Large-scale programs of construction and coordination of all forms of transport are necessary to bring the products of inaccessible regions into touch with trade routes in and beyond the Western Hemisphere. Physical difficulties attend construction and maintenance of rail and road transport, but engineering skill can be counted upon to work toward a solution of some of these difficulties. Another complicating factor affecting any future development of internal transport, however, cannot be solved by engineering skill alone. Equipment for expansion of transportation facilities must be imported from abroad, thus relating internal transportation to the great currents of international trade.[59]

Default

The foreign owner of capital, as he contemplates an investment abroad, is guided by past performance of the prospective borrower in meeting his financial obligations. On this score alone, the record of Latin American nations is not one which tends to attract individuals with funds to lend. A previous chapter dealt with the extent of default on dollar bonds held by creditors in the United States, but the discussion at this point is concerned with default in its relation to possible future investment.

Failure to meet financial obligations is not a practice peculiar to Latin American nations. Collapse of economic machinery the world over since 1929 has made the practice almost universal. Debtor-creditor relationships have been strained to the breaking point both in domestic

[59] See "Bolivian Railway Problem," *Foreign Commerce Weekly*, 8:19, September 5, 1942, and in same issue, "Chile Needs Rails and Rolling Stock," p. 27.

and foreign transactions. Within an economy, failure to pay interest on a bond or mortgage may become so common as to be regarded as one of the costs of setting the economic house in order. In recent years legislatures, both state and national, have used their powers to intervene on behalf of debtors. Investments which bring debtors of one nation into contractual relations with creditors in another do not, however, lend themselves to such an expediency. When purely domestic investments are in default, failure to meet contractual arrangements may be viewed as a gain for some individuals at the expense of other individuals in the same society. The wealth of the society is not necessarily impaired. On the other hand, failure to meet debt service on an international loan is regarded as a gain to the people of one nation at the expense of people in another land. Creditors feel that income from past produced wealth has not only been denied them personally, but that the fruits of one nation's productive power have been appropriated by foreigners.[60]

Many explanations of Latin American default have been offered. Undoubtedly some creditors failed to give reasonable consideration to the debtor's ability to produce sufficient income out of which repayment could be made. The relationship between new loans and foreign capital already invested was apparently lost sight of in some cases. Charging of exorbitant rates of interest, the commercial policies of other nations of the world, and lack of organized control over international money markets are other factors in the explanation of default.

None of the foregoing factors, however, stresses the underlying cause. Fundamentally, Latin American defaults cannot be dissociated from the chaotic conditions prevailing in world trade since 1930. Relatively high standards of living in many Latin American countries were made possible in the second decade of the twentieth century by expanded export trade aided by large inflows of foreign capital. As a result, the economies of the Latin American nations became more closely attuned to international commodity and money markets. Proceeds for repayment of loans were expected to grow with profits from the sale of export commodities. The trading mechanism pictured by both creditors and debtors collapsed, however, and default followed. Unwise loans may have been made; their proceeds may have been used in non-economic ven-

[60] The following discussion on default has drawn extensively from Willy Feuerlein and Elizabeth Hannan, *Dollars in Latin America*, Chapter II.

tures; but continued export sales could have conceivably checked default before it became an international issue.

Reduction of exports made it difficult for Latin American nations to obtain sufficient foreign exchange to pay for imports and to continue service on international debt. Prices of imports from industrial countries fell to a lesser degree than prices of raw-material exports, so that reduction of imports did not correspondingly decrease the need for foreign exchange. Maintenance of debt service called for increasing sacrifices from debtors, or extension of new loans by creditors. The latter alternative, of course, was hardly to be expected once the collapse of international markets had emphasized the speculative nature of many past loans. In the absence of any constructive aid from governments, whose finances were dependent upon revenue from international trade, raw-material producers were unable to continue tax payments. When their income became uncertain because of declining exports, the foundation of Latin American public finance was severely shaken and default seemed the only way out. A subsequent chapter analyzes the dependence of Latin American nations upon customs duties as a source of public revenue.

Default, if it is interpreted as meaning only a suspension of interest payments, does not mean that creditors' losses are equal to the full amount of investment. In many cases, it has resulted in agreements to reduce principal and interest payments to meet conditions which have arisen since the granting of the loan. In private commercial transactions, creditors have been willing to make concessions in return for participation in management, control, or reorganization. Default by a government, however, presents a situation in which the creditor is lacking in bargaining power. He cannot demand concessions from a sovereign state in respect to management and control of its operations. A defaulting government may, if it wishes, leave the creditor practically helpless in his demands for some form of adjustment. Realization of the creditor's position in such cases tends to result in depressing the value of defaulted government securities in the open market, and the very governments in default may buy such securities at lower prices. In this manner, both principal and interest may be reduced at the expense of the creditor. Creditors are inclined to question the faith of a government which takes such action following a plea of insufficient foreign exchange to continue debt service. Some Latin American na-

tions have participated in the cycle described above in respect to dollar bonds held in the United States.[61]

It must not be assumed from the foregoing discussion that all Latin American borrowers were unable or unwilling to pay interest on United States dollar bonds. Cuba, the Dominican Republic, Haiti, Argentina, and Uruguay continued payments either in fulfillment of the original contract or in accordance with adjustments agreed upon by creditors. The Caribbean countries, of course, are almost completely dependent upon United States markets for their foreign trade and were able to maintain sufficient export trade to discharge their obligations. Argentina and Uruguay, on the other hand, are largely dependent upon markets of the United Kingdom for their export trade.

Considerable emphasis has been given to the point that four countries, Argentina, the Dominican Republic, Haiti, and Uruguay, all with unfavorable balances of trade in 1938, paid full interest. This situation has been cited as evidence that default by other Latin American nations was not due to inability to pay but rather to unwillingness.[62] According to the Foreign Bondholders Protective Council, one country in total default on dollar bonds since 1932 had a favorable balance of trade with the United States over a seven-year period equal to three times the amount of interest service. This same country paid full service, however, on its total internal debt. Six Latin American countries having a favorable balance of trade with the United States in 1938 made no interest payments for that year.

The attempt to correlate the condition of a nation's balance of trade with its actions, in respect to its external debt, gives no proof in itself of ability to meet obligations. During the depression years, creditor countries made use of bilateral balancing arrangements in order to salvage something on past loans. Such arrangements called for setting aside, in the debtor country, specified amounts of funds due the debtor as a result of its trading transactions with the creditor. Such funds were to be applied on interest payments. Thus a country entitled to interest receipts could exert pressure upon the debtor country from which it was currently buying more goods than it was selling. This practice was followed by the British in their relations with Argentina

[61] Willy Feuerlein and Elizabeth Hannan, *op. cit.*, p. 26. See also Foreign Bondholders Protective Council, *Annual Report*, 1939, p. 9.

[62] Foreign Bondholders Protective Council, *Annual Report*, 1939, p. 9.

but not to the exclusive advantage of British bondholders.[68] British purchases in Argentina allowed American bondholders to be paid along with sterling creditors. The policy of the United States, however, as expressed in the Reciprocal Trade Agreements Program, was opposed to bilateral clearing arrangements. It sought commercial agreements which would open up the channels of trade in the world at large and was not aimed at immediate payments on past obligations. This was a laudable long-run objective, but it brought no immediate relief to American bondholders. Thus the United States could not consistently exert economic pressure to force use of dollar exchange originating from an excess of purchases over sales in certain Caribbean nations and Brazil. It turned instead toward negotiations with Latin American debtors designed to influence general economic development. Through the use of American capital, it was hoped that the general international position of debtor nations might be improved and that direct investments might be encouraged. The American policy of long-run multilateral trading relations, in preference to short-run financial settlements, must be regarded as one of the factors in Latin American default on dollar bonds.

The discussion above is sufficient to emphasize the difficulty of placing specific blame for default. An example has been set by nations admittedly in a less vulnerable international position than many of the Latin American countries. The United States, and other gold standard nations, refused to pay bondholders in gold as stipulated in original contracts. Such action could be viewed by Latin American governments as general acceptance of the right of a government to re-interpret financial obligations in terms of national welfare. The age-old argument, that a marked shift in price levels resulted in creditors receiving more than they originally loaned, seemed very real to Latin American nations faced with rapidly declining export prices. The possibility of default, or even repudiation, has long been regarded as one of the elements in returns from foreign investments. In times of economic strain, the attitudes of debtors toward the wisdom of loans, for which such eloquent pleas were made only a few years prior, may easily change. The plea that declining government revenues, as a result of decreasing sales in export markets, is sufficient cause for default is a difficult one for creditors to minimize. This is particularly true in nations where the revenue-raising machinery has been built around the production and

[68] Willy Feuerlein and Elizabeth Hannan, *op. cit.*, p. 36.

movement of commodities in international trade, as it has in most Latin American nations.

Doubtless, all these considerations have another side, and creditors present arguments supported by evidence from time-honored practices in international finance. In the midst of all such discussion, however, one significant point stands out—default by Latin American nations is just one more bit of eloquent testimony of the extreme dependence of these nations upon the fortunes of international trade.

Legislation and Regulations Affecting Business Enterprise

Various government policies affecting foreign investment in Latin America range from tax measures, on the one hand, to actual confiscation of foreign-owned property on the other. Some of the policies have been given expression in legislation to which foreign-owned enterprises have adjusted for some time in the past, types of legislation normally expected by foreign investors. Other policies, particularly in more recent years, have gone beyond the commonly expected regulations in countries where foreign capital has played a significant part in economic development. Mining legislation and regulations, labor legislation, regulation and nationalization of industries, and broader movements of social reform are typical of recent developments in this respect.

The new mining code in Brazil contains provisions that practically make foreign ownership in mines and industrial plants impossible. Prior to 1934, mines belonging to owners of soil could be worked without permit, authorization, or concession of the government. A Brazilian Constitution proclaimed in 1937 makes industrial use of mines and mineral deposits, even when privately owned, subject to federal authorization. Such authorization can be given only to Brazilians or to companies whose shareholders are Brazilian.[64] The constitution further provides for regulation by law of progressive nationalization of mines, mineral deposits, waterfalls, or other sources of power. Industries considered basic or essential to the economic or military defense of the nation are to be regulated in this manner also. Subsequent mining legislation is tending more and more towards national control and against foreign ownership and prospecting of mineral rights.

[64] "Mineral Resources, Production, and Trade of Brazil," *Foreign Minerals Quarterly*, 4:5, July, 1941.

In Chile no particular distinction is made against foreign ownership in mining laws, although 85 per cent of the total amount paid in wages or salaries must be to Chileans.[65] Export taxes and mining royalties have been used in the past to raise revenues from foreign-owned companies. In more recent years, sales monopolies and other devices have been developed either to secure revenue from, or to exercise control over, foreign-owned mining companies.[66]

Mining legislation is not confined to these two countries, but they serve as examples of the trend against foreign exploitation of mineral resources.[67]

In respect to labor legislation in Latin America, the laws of greatest significance to the foreign investor are those regulating relations between employer and employee. Such laws are not novel, but the objectives of such legislation in Latin America differ from those in the United States. Regulations in both areas are aimed at improvement in the standard of living, redistribution of income, or control of the business cycle. Other motivations are active in Latin America, however, and it is probably correct to say that much social legislation in Latin American countries is due to a desire to further nationalistic trends, and to enlist popular support against foreign capital. The field of labor legislation includes regulations of hours, labor on holidays and Sundays, wages, accidents, female and child labor, minimum age, immigration, social services, and the use of a minimum percentage of nationals by every enterprise. Recent legislation has touched on labor disputes, housing, industrial hygiene, safety measures, price control, and the cooperative movement.[68]

Many of the subjects covered in this legislation might conceivably work to the long-run advantage of foreign capital. If such measures aid in increasing productivity of Latin American labor, returns upon capital may be more certain. On the other hand, prospective investors may be inclined to emphasize the effect of such measures upon foreign

[65] "Mineral Resources, Production, and Trade of Chile," *Foreign Minerals Quarterly*, 3:72, April, 1940.

[66] Willy Feuerlein and Elizabeth Hannan, *op. cit.*, pp. 59–62.

[67] "Mineral Resources, Production, and Trade of Argentina," *Foreign Minerals Quarterly*, 3:51, July, 1940.

[68] "Some Aspects of Recent Social Legislation in Latin America," *Bulletin of Pan American Union*, 76:83, February, 1942.

industry now established in Latin America and regard them as additional obstacles in the path of investment.

In a sense, it is paradoxical to note advanced social legislation in countries that are industrially backward and lack a strong trade union movement. Considering the movement throughout Latin America toward lessening dependence upon the outside world, however, such legislation fits into the general pattern of emphasis upon industrial development and accumulation of domestic capital. Most labor legislation, with the exception of wages, results in comparatively little conflict between capital and labor. The necessity to keep down industrial costs is not so great as it would be in agriculture where products must compete on world markets. Latin American industry, as we have seen, caters principally to domestic markets and, in the industries which operate in export trade, the burden of additional cost from labor legislation is borne by foreign interests. Capital, being largely foreign, has relatively little influence on national government, whereas labor, being predominantly local, is in a position to share in the direction of governmental policy. As a result, capital has found it exceedingly difficult to resist proposals for advanced social legislation.[69]

The use of legislation in Mexico presents a good example of the extent to which regulations may be used as a weapon against foreign interests. The problem of incorporation under Mexican law is not difficult, but the labor code is probably more of an obstacle to foreign enterprises than restrictions upon acquisition of lands and concessions. Regulations of Article 123 of the Constitution of 1917 include provisions for the limitation of hours, double pay for overtime, minimum wages, participation in profits, dwelling places for workers, privileges of union organization, schools, dispensaries, and boards of arbitration.[70] Legislation was also enacted in 1931 which was applicable mainly in industrial and mining centers.[71] The expression of such legislative objects is admittedly laudable, but their operation in a country which has been developed by foreign capital presents a delicate administrative problem which calls for mutual good will.

[69] Royal Institute of International Affairs, *The Republics of South America*, pp. 206–207.

[70] Edgar Turlington, "Foreign Investments," *The Annals of American Academy*, 208:108, March, 1940.

[71] Willy Feuerlein and Elizabeth Hannan, *op. cit.*, p. 66.

The application of such regulations to foreign interests became a matter of world-wide concern in 1938, when the properties of seventeen oil companies were expropriated in order to enforce labor decrees. This action by the Mexican government came as a climax to a struggle by government and labor to emphasize the necessity of building up a capital fund out of industries owned by foreign capital. The 1917 Constitution declared, in Article 27, that petroleum resources were the property of the nation and provided that subsoil resources might be exploited by foreigners only if the right of diplomatic protection was renounced, should dispute arise with the Mexican government.[72]

Mexico and the United States negotiated a general settlement on November 19, 1941, in which they agreed to the appointment of experts by both governments to determine compensation to be paid American owners of the expropriated properties.[73] On April 18, 1942, announcement was made that the experts had agreed upon a figure of $23,995,991, less certain claims against the oil companies.[74] Although United States firms are not compelled to accept the payment offered, refusal to do so will leave them without support of the government in demanding a larger settlement.[75] The oil companies insisted upon compensation for subsoil rights which, they contended, represented the most important part of their Mexican holdings. Acceptance of the offer, then, results in abandonment of the very principle which the oil companies fought to maintain. If subsoil rights are to be ignored in settlements of this type, a precedent may be set for indemnification of foreign mineral properties seized by other nations.

Labor legislation in other Latin American countries has not played the important role that it has in Mexico. Its effect, however, is probably greatest upon export industries, particularly in periods of uncertain international markets. Most countries have established a fixed percentage of nationals that must be employed in industrial, agricultural, and commercial enterprises, this percentage ranging from 50 per cent in Cuba to 90 per cent in Mexico.[76] Restriction of employment of

[72] C. A. Thomson, "The Mexican Oil Dispute," *Foreign Policy Reports*, 14:122, August 15, 1938.

[73] U. S. Department of State, *Bulletin*, November 26, 1941, p. 400.

[74] *Ibid.*, April 18, 1942, p. 351.

[75] "Mexican Oil Pact Clears Way for Fuller Cooperation," *Foreign Policy Bulletin*, 21:2, April 24, 1942.

[76] See George Wythe, *loc. cit.*

foreign technicians and requirements whereby foreign companies must train nationals to replace foreign personnel are other types of action aimed at foreign enterprise.

Other types of governmental action bearing on future capital investment have been instituted in Latin America. Such policies may be directed at government revenues, promotion of social welfare, or protection of the public interest.

Many railroads, public utilities, and financial institutions in Latin America have been controlled by foreign investors. Foreign holdings in such enterprises are particularly vulnerable to seizure in the public interest if a government considers them to be of sufficient strategical importance. When ownership of such enterprises are widely held by citizens in the country in which operations are carried on, regulation or control is not necessarily a difficult problem. If industries "clothed with the public interest" are operated for profits of alien investors the problem may become exceedingly delicate.

Actual confiscation has not been resorted to in many cases, but fear of such extreme action is a powerful force influencing potential investors. The action of the Mexican government referred to above is probably the most familiar case of expropriation, although Bolivia took similar action against American oil properties. An agreement has been reached in the latter case also, but the underlying conflict between a capital exporting and capital importing nation has not been dissolved.[77]

Economic Nationalism

The preceding review of factors bearing on foreign capital investment in Latin America serves to emphasize the fact that foreign investment has led to significant economic and social consequences in those nations. The repercussions tended to be overshadowed as long as trade provided markets for exports. In the world of today, however, the very economic activities which foreign capital developed are involved in the trend, in practically all Latin American nations, toward economic nationalism. Most foreign capital in Latin America has been invested with the view of increasing production for export. The universal collapse in export markets in the 1930's has forced the Latin American nations to re-

[77] "Payment to Standard Oil Company," *Foreign Commerce Weekly*, 6:14, March 28, 1942.

examine their societies in terms of more conscious domestic control of their economic destiny. In the search for ways and means of developing measures of economic control, the reduction of foreign influence upon domestic economic life stands out as an important objective. Industries, the returns from which go to aliens, particularly those export industries whose activities deplete natural resources, are looked upon as making inroads upon the economic welfare of the country possessing the resources. These industries are regarded as possessing public interest in much the same manner as transportation and communication systems. The desire to "keep wealth at home" has become strong in this area, and to a considerable extent nationalistic pressure in recent years has given impetus to programs of industrial development. The primary need of capital and labor is considered as one which should be met from purely domestic resources. Production for domestic consumption, regardless of the handicaps involved, is regarded as a certain method of divorcing economic life from the uncertainties of international markets.

In an atmosphere of economic nationalism various types of state ownership, control and competition are suggested, some pointing toward putting the state in export business formerly dominated by foreign enterprise, others setting up government-owned industries to compete with those already in existence. Nationalization of mines and oil refineries and control of oil distribution have restrained an important form of foreign investment. Competition by the Argentine government in the meat-packing industry and the increasing regulation of public utilities are examples of competition and control.[78]

Economic nationalism has chosen foreign capital in Latin America as one of its foes. The impartial observer notes the weight of evidence in support of the statement that economic development at the level prevailing prior to the decline of exports was due largely to foreign investment. On the other hand, that same observer would note also that the increasingly vulnerable international position of Latin American nations is the price of that development. People, through their governments, are inclined to join freely in criticism that such a price is too high, wholly apart from the fact that future economic development cannot be accomplished without still more capital.

[78] D. M. Phelps, *The Migration of Industry to South America*, p. 166, and Willy Feuerlein and Elizabeth Hannan, *op. cit.*, pp. 70–73.

Conclusion

Any extensive program of future capital investment in Latin America must be concerned with the various impeding factors discussed in this chapter. Supplies of capital may be available in the United States, and among other nations of the world, but that factor alone is not enough. Capital, to be effective as an agent of production, must work in efficient combination with labor and land, and the paucity of labor in Latin America, in relation to the large amounts of capital necessary for further development, is an economic reality which cannot be overlooked.

Certain economic and social transitional costs must also be kept in mind in connection with foreign investments. Increased supplies of capital in an area producing raw materials bring changes in methods of production, which mean new ways of living. Transition from a relatively simple type of economic life to the quickened tempo of larger-scale production is not easy.

In practically every section of the world that has attained a high degree of economic development, internal transportation has aided in the widening of markets. Economic activity in Latin America is still limited by the lack of facilities for transport, despite the fact that considerable amounts have already been placed in this type of enterprise. Any survey of resources, in contemplation of future capital investment, must take into account the necessity of improvement in means of transportation as a way to widen the area of exchange.

Default on past borrowing is directly related to international developments; nevertheless, private creditors, seeking outlets for possible investment, may be hesitant as a result of past experience. Repudiation of debt is not a new development in international finance but, linked with governmental restrictions upon international transactions by exchange control systems, it retards international capital movements.

The various impediments discussed in this chapter are serious, under any circumstances, but overcoming them in countries whose citizens urge a halt to what they consider a "colonizing process" is an especially difficult task. Latin American nations find it almost impossible to "get along" *without* foreign capital, but tendencies toward economic nationalism suggest equal difficulty in "getting along" *with* capital from abroad.

Undoubtedly other factors, such as political instability and the uncertain speed with which technological change takes place, are to be

included among the hindrances to future capital investment in Latin America; but those analyzed above are sufficient to suggest that economic development of the area is not merely a question of need for capital.

International financial transactions are not completed, in the economic sense, until international trade provides means for repayment through the flow of goods and services. Thus the trading mechanism, which in the past carried Latin America toward the present set of pressing economic problems, awaits modification but not elimination.

Chapter 8

PUBLIC INVESTMENT IN LATIN AMERICA

UNTIL THE 1930–1939 decade, investment in Latin America was dominated and even monopolized by private capital. Private enterprise built railways, meat-packing plants, coffee and banana plantations, copper mines, and oil refineries. During the latter stages of the world-wide economic depression, however, a slight shift toward government loans and investment could be noted. With wholesale default upon portfolio investment, occasional expropriation, and dwindling earnings, the flow of capital into Latin America nearly stopped. Yet there remained serious exchange shortages, roads to be built, public works programs to be carried out, essential imports to buy, and huge internal development programs. These spheres of investment were apparently not very attractive to private investment, although Ford, Goodyear, and others did pioneer in the development field. With the more sweeping policy adopted by the Export-Import Bank late in 1940 and in 1941, the role of public investment became vastly more important. It is now legitimate to inquire about the role of public capital in the present but particularly the future of Latin America.

Differences of opinion exist concerning the proper scope of public investment in Latin America. This divergency in attitude will be discussed in connection with the Export-Import and Inter-American banks. Suffice it to observe that opinion ranges from the position that foreign investment is exclusively the province of private capital to the equally extreme contention that private outlays necessarily defeat social ends.

Certain fields of activity seem to be increasingly dominated by public investment. Loans for the purpose of unfreezing blocked currencies, building highways, repairing earthquake devastation, and similar objectives are generally accepted as legitimate fields of governmental activity. Nationalization of Latin American railways has brought that industry

increasingly under public as well as private control. During World War II, negotiations have been under way for the wholesale purchase of British railway properties by the respective Latin American governments. Huge development projects also appear to be partially the responsibility of governments, although private enterprise has entered this sphere on a small scale. Projects involving the diversification of an entire economy, the resettlement of peoples and groups, and like projects appear to involve public action. Other spheres, such as air and water transportation, have come to be dominated by private capital but subsidized by governments.

Further discussion of the role, present scope, and possible future of public or governmental investment in Latin America will be integrated with analysis of the existing or proposed agencies through which such outlays might be channeled.

The Export-Import Bank

The most significant public agency thus far lending appreciable sums to Latin America has been the Export-Import Bank of Washington. An analysis of the objectives, activities, and future of this bank should provide a cross-section of the entire problem of public investment in the hemisphere. This is especially true since the short history of the bank can be divided into two markedly divergent periods. During the first period, the bank was concerned with cautious, short-term operation, designed merely to supplement private lending. During the second and current era, the bank has shifted to a somewhat bolder, longer-range basis. Both the statements of officials and the actual loans disbursed reveal the scope and implications of this shift.

The Export-Import Bank was created in February, 1934, primarily as an export credit agency. It was established to meet the emergency caused by the growth of bilateralism and restriction in foreign trade. It was believed that the agency could be a strictly business proposition and could be replaced by a private, commercial institution when the emergency had ended.[1] During the remainder of the decade, its activities necessarily expanded somewhat beyond those originally planned. The bank, however, continued to be primarily concerned with export

[1] Warren Lee Pierson, "Export-Import Bank Operation," *Annals of American Academy*, 211:35–40, September, 1940.

credit, and its operation was featured by caution and hesitancy.[2] Despite the impact of the depression and the delegation of functions by other agencies, the bank continued to be a small-scale, conservative institution.

At the end of 1940, the loans by this bank involving Latin America could be arranged in seven categories.[3] First, certain extensive coinage loans were granted to Cuba. Second, loans were made to the International Telephone and Telegraph Company for improvement of Latin American facilities. Third, credits were extended for the purpose of meeting seasonable or emergency shortages of exchange. Fourth, credits were utilized to mitigate difficulties caused by blocked commercial balances, particularly in Brazil. Fifth, a number of loans were made to the smaller and less advanced nations to encourage road building and public works projects. Sixth, several transportation equipment loans were made to assist United States exporters of railway equipment. Seventh, industrial development loans were extended to Brazil and Chile. Note that most of these categories were of an emergency or quasi-emergency nature. Because of the modest lending power and cautious policy of the bank, loans prior to the end of 1940 were very limited. Authorizations also markedly exceeded disbursements, as many credits were simply held in reserve to prevent further breakdown of exchanges.

The seven categories mentioned above encompassed about 95 per cent of the Export-Import Bank credits to Latin America up to the end of 1940. The remainder of the bank's loans have helped to finance exportation of certain United States products, as well as the construction of a hotel in Venezuela and the importation of tropical commodities from Brazil. Of these seven types of loans or credits, four are perhaps most representative of Export-Import Bank policy prior to the end of 1940. They are the third, fourth, fifth, and sixth categories mentioned above.

The bulk of the commitments during that period were extended to stabilize and maintain the value of Latin American currencies. These loans were intended to offset in slight degree the severe stringency of

[2] Charles Whittlesey, "Five Years of the Export-Import Bank," *American Economic Review*, 29:487–502, September, 1939.

[3] "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, 17:84–90, June 15, 1941.

exchange occasioned by the curtailment of foreign markets and declining export prices. Nominally, these credits are to be employed to purchase United States commodities or services, but their fundamental purpose has been to assist in restoring the balance of payments in the various nations. Prior to late 1940, however, nations or banks receiving credits were expected to utilize these funds in whole or in part for the purchase of United States products. These loans enabled many Latin American republics to hold their surplus products off the market for a time, thus avoiding further ruinous price declines. Eventually, however, these unsold products pile up, and the surplus is accentuated. Such credits have furnished a stop-gap rather than a fundamental solution to this baffling Latin American problem of surplus commodities.

Two commitments, aggregating nearly $47,000,000, were also extended to Brazil to encourage payment of the blocked balances of American exporters. These balances had been frozen because the course of trade had occasioned a lack of dollar exchange. These large commitments, however, have not resulted in equivalent disbursements.

The bank also loaned extensively for road-building and public works. As of December 31, 1940, loans of this type totaled $23,000,000, and had been made to seven countries, five of them in Central America or the West Indies. Most of these loans were for road construction, notably for the extension of links in the Inter-American highway. The remainder was allocated among bridges, port facilities, irrigation projects, and water systems.

The Export-Import Bank also encouraged the export of railway equipment, ships, and similar heavy transportation equipment. These loans and commitments involved principally Brazil, but several other nations were also recipients. The Brazilian credits were for the broad purpose of improving her transportation facilities and developing her productive capacity. Such loans were nominally for the assistance of exporters but also had considerable long-range significance.

As World War II continued to affect both Latin America and the United States, pressure to broaden the scope and objectives of the bank increased. Not only the repercussions of the war but also considerations of Latin American policy seemed to dictate the utilization of the Export-Import Bank for new purposes. When Congress held hearings upon a bill to increase the lending power of the bank from $200,000,000 to $700,000,000, the Secretary of Commerce appealed for its passage.

In a letter to the House Banking and Currency Committee, he sketched four broad objectives that such increased lending power might implement.[4] These included continued financing of exports to Latin America; assistance to Latin America in combating the economic maladjustments caused by the war; aiding these countries to expand their production of complementary products; and accentuating of Latin American industrialization. This statement urged the continuance of the short-run, emergency program of the bank, but it also revealed a trend toward the assumption of broader functions.

When this Act was passed in September, 1940, it provided that the Export-Import Bank could maintain up to $500,000,000 in loans outstanding to Latin America at any one time.[5] These credits could be extended to governments, central banks, quasi-public agencies, and other acceptable banking institutions. The stated purpose of this loan expansion measure was to "assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the Western Hemisphere."

Since that act was passed, most of the authorized lending power has gradually been utilized. During 1940, commitments, less cancellations and expirations, totaling $167,547,500 were made to Latin American countries.[6] Of this total, credits aggregating $115,590,000 were extended between September 26 and December 31. Large authorizations were made to Argentina, Brazil, Colombia, Peru, Uruguay, and Chile, and smaller commitments were made to other countries. Yet, actual disbursements in 1940 amounted to but $6,045,310. As of the end of 1940, the total amount outstanding in Latin America, including loans previously made, was but $29,400,000.[7] This represented an increase of $10,000,000 over the end of 1939, but it was still a very modest sum. The relatively large volume of commitments did, however, constitute a reserve against which nations could draw if emergencies required. Factors minimizing actual disbursements were the large exports to the United States, accentuation of domestic manufacturing, and, to a lesser

[4] 76th Congress, 3rd Session, *Hearings before Committee on Banking and Currency, House of Representatives, on H.R. 10212, Superseded by H.R. 10361.*

[5] 76th Congress, *Public Law 792.*

[6] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:105, April–May–June, 1941.

[7] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 17*, p. 30.

extent, transfer of dollar balances to Latin America by European nationals.[8]

The year 1941, however, witnessed a marked increase in authorizations and disbursements alike. Reports as of March 31, 1941, indicated loans outstanding of only $33,815,000, but commitments to make additional loans aggregated $186,922,000.[9] At the close of 1941, however, the record was very different, revealing the marked increase in the scope of bank activities during the year.[10] Authorizations of $182,924,398 had been extended; disbursements of $116,835,507 had actually been made; and repayment totaling $61,736,507 had been received. More significant, however, was that $186,130,456 was now outstanding and that $324,858,539 was authorized but pending disbursement. During 1942, the bank continued to disburse large sums and operated near the peak of its new authorized capacity. In June, 1942, commitments amounted to $660,961,616, but disbursements had been but $149,459,504.[11] Disbursements lagged in 1942 primarily because of difficulties in procuring goods on order in the United States. The increase in disbursements that did occur, however, may be attributed in part to the changed nature of commitments. Since many of the new loans have been for construction or development projects, rather than emergency reserves, they have been employed rather than held idle. The degree to which commitments have been drawn upon varies sharply from country to country.[12]

The changed nature as well as scope of the bank's loans has been of the utmost significance. This shift in emphasis has been spectacular, although it has probably resulted more from the impact of the war than through deliberate decisions. Statements by Mr. Warren Lee Pierson, head of the bank, indicate this gradual change in the bank's functions. The distance which the Export-Import Bank has traveled is indicated by his observations as of December, 1941:

> Obviously it is not always desirable to adhere to the lending standards of a private institution. Our stockholders are all the people of the United

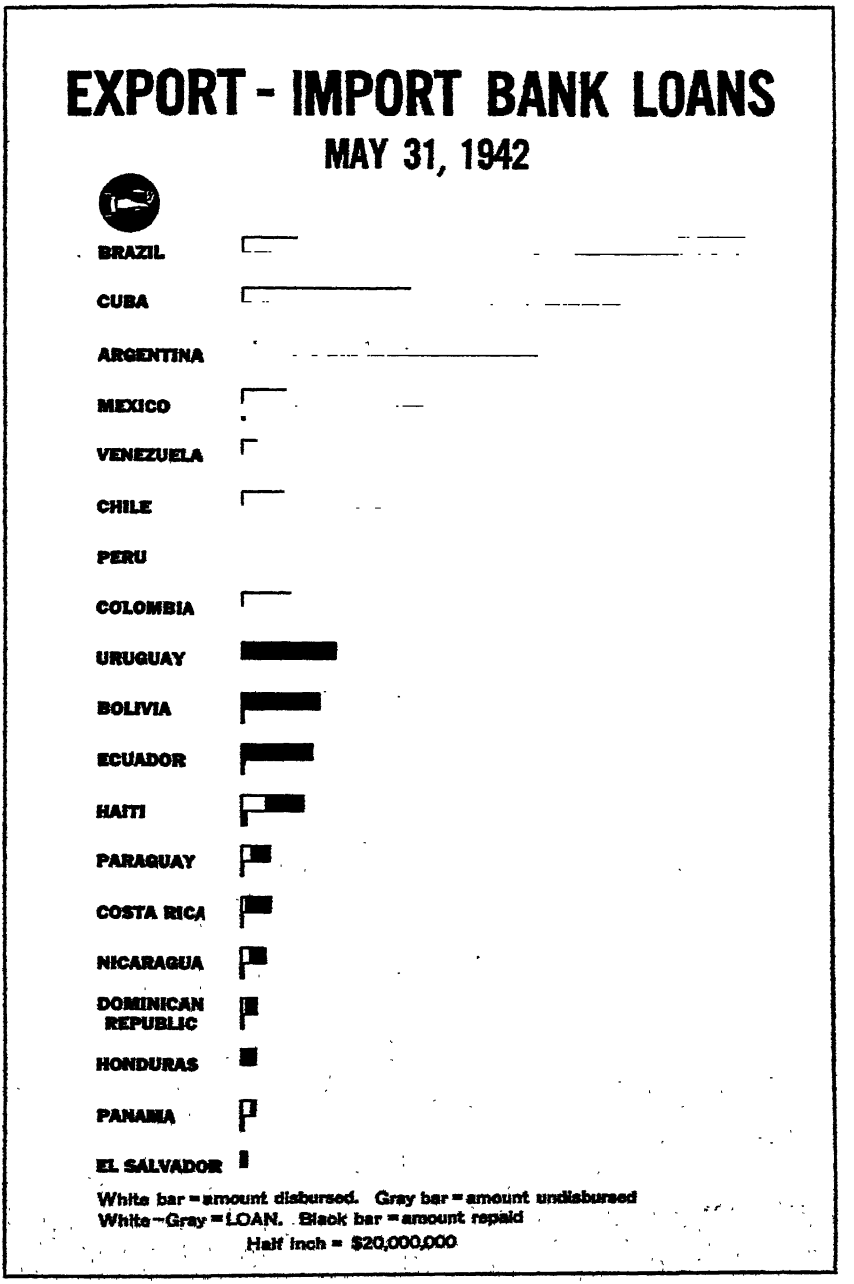
[8] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:106, April–May–June, 1941.

[9] *Ibid.*

[10] U. S. Federal Loan Agency, *Annual Report of Export-Import Bank of Washington for 1941.*

[11] Inter-American Development Commission, *Bulletin 10*, July, 1942, p. 5.

[12] See Appendix, Table 35, p. 427.


EXPORT - IMPORT BANK LOANS
MAY 31, 1942
BRAZIL
CUBA
ARGENTINA
MEXICO
VENEZUELA
CHILE
PERU
COLOMBIA
URUGUAY
BOLIVIA
ECUADOR
HAITI
PARAGUAY
COSTA RICA
NICARAGUA
DOMINICAN REPUBLIC
HONDURAS
PANAMA
EL SALVADOR
White bar = amount disbursed. Gray bar = amount undisbursed
White-Gray = LOAN. Black bar = amount repaid
Half inch = $20,000,000

> States. We feel that they will be properly served if, in addition to having a loan repaid, they receive intangible dividends in the fact that the United States has been able to assist the economic development of sister republics.[13]

More specifically, he emphasized the need of Latin American industrial development and the role which public loans might play in that process. Such statements indicate a significant re-orientation of bank policy. Remnants of the original short-run, stop-gap character of the institution remain, however. The statement quoted above concludes:

> While it is proper that the Congress and the various administrative agencies of our government should take an active part in improving economic relations with the other countries of the hemisphere, the real work under our system must be done by private individuals and firms. . . . I hope you will find enough good in what we have been trying to do to make more of our private bankers and businessmen want to go and do likewise, with or—better still—without our participation![14]

Actual commitments and disbursements since late 1940 reveal the same trend. Not only have such long-range undertakings as the Inter-American highway been stepped up through loans by the Export-Import Bank, but vast development projects have also been inaugurated.

Loans made in the fall of 1940, at about the time of the new act, reflected this new tendency. On September 26, 1940, the Export-Import Bank extended a $20,000,000 loan to Brazil.[15] Proceeds of this loan were to be utilized to acquire steel-mill and other equipment in the United States needed to encourage development of the Brazilian steel industry. Extension of railroads to the iron deposits also reached to manganese resources, so the loan had very significant ramifications. Parenthetically, although the bank is protected and can influence the operation of the project until the repayment of the loan, actual ownership of the equipment involved is Brazilian. This loan, although limited to $20,000,000 by the then-existing ceilings imposed upon the bank, had a significance out of proportion to its size. It paved the way for future emphasis upon long-range development rather than merely emergency action.

[13] Warren Lee Pierson, "Latin America and the Export-Import Bank," *Foreign Commerce Weekly*, 5:7, December 6, 1941.

[14] *Ibid.*, p. 39.

[15] "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, 17:87–88, June 15, 1941.

Loans extended during 1941 and 1942 reflected this new program. Activities of the bank during the former year had been almost exclusively related to the expansion of inter-American trade and the large-scale development of hemispheric resources.[16] With the necessity for importing large quantities of strategic materials from Latin America, further loans were made for railway and highway improvement. Old credits were continued, and new ones extended to central banks to facilitate purchase of essential imports from the United States, although these credits became less necessary with increased United States imports. Loans for public works projects, preferably part of long-range programs, were granted to Cuba, Bolivia, Brazil, Chile, the Dominican Republic, and Paraguay. Loans to finance additional sections of the Inter-American Highway were made to Costa Rica, Nicaragua, El Salvador, and Mexico. Perhaps most significant, however, were loans for general development purposes. A credit was extended to Haiti to encourage rubber production and a comprehensive program of experimentation and development. A loan was also granted to Paraguay, for the purpose of purchasing equipment and services for mandioca production.

In November, 1941, agreement between Mexico and the United States was reached concerning, among other things, future Export-Import Bank loans.[17] Mexican highway bonds were accepted as security for a $30,000,000 loan for highway construction, and the bank was to look with favor upon other requests for Mexican development credits.

The earlier, more orthodox loans still dominated in late 1941, but the newer type credits were beginning to assume significance. However, 1942 witnessed an appreciable extension of long-range development programs. A series of accords with Brazil, concluded in March, 1942, provided for allocation by the bank of $100,000,000 for mobilization of the varied productive resources of Brazil.[18] Whereas this allotment was to encourage production of goods that could aid the Allied cause, it was also to subsidize certain long-range projects. Wild rubber was to be collected, but plantation rubber development was also to be encouraged.

[16] U. S. Federal Loan Agency, *Annual Report of Export-Import Bank of Washington for 1941*, p. 1.

[17] "Agreement between Mexico and the United States," *Bulletin of Pan American Union*, 75:47–50, January, 1942.

[18] "U. S. Presses Hemisphere Solidarity Program," *Foreign Policy Bulletin*, 21:3–4, March 13, 1942.

The Itabira iron mine properties were to be developed, and essential feeder railways and port facilities were to be extended or improved.

In April, 1942, negotiations for a new $25,000,000 loan by the bank to Cuba were concluded.[19] Proceeds were to be divided: $5,000,000 for the repair of the central highway, $10,000,000 for development and diversification of the hitherto overbalanced Cuban pattern of agriculture; and the remainder for waterworks, sewage, sanitation, and feeder roads.

Extensive loans were also made in 1942 to Bolivia for the development of an oil industry and for other purposes.[20] The oil loan was for $5,500,000, and an earlier credit of $25,000,000 had been granted for development purposes. A little later in the year, the Export-Import Bank also extended a loan of $25,000,000 to Peru, to facilitate importation of equipment needed for public works and development projects.[21] It was also reported in 1942 that the bank was to aid in the financing of a new Mexican steel plant.[22] Such loans were manifestations of the expanded development program which has featured the bank's activities with increasing emphasis since late 1940.

Although the bank is moving toward a basically long-range function, it has nevertheless attempted to facilitate essential wartime trade. In late October, 1941, the assumption of a new function was announced.[23] The bank, with the assistance of the Department of Commerce and the Office of the Coordinator of Inter-American Affairs, launched a new financing scheme. The United States government was to finance Latin American purchases in the United States, requiring no payment until the goods were actually delivered at Latin American ports. The plan was designed to ease trade tension caused by the extreme difficulty experienced by Latin American importers in procuring United States goods. The program was an outgrowth of a twofold problem created by the lack of sufficient dollar resources in Latin America and the insistence of some United States manufacturers upon letters of credit

[19] "$25,000,000 Cuban Loan Concluded," *Foreign Commerce Weekly*, 7:15, May 2, 1942.

[20] "Bolivian—United States Agreements," *Bulletin of Pan American Union*, 76:354, June, 1942.

[21] "Some Agreements between the Governments of Peru and the United States," *Bulletin of Pan American Union*, 76:355–356, June, 1942.

[22] "Cash across the Border," *Newsweek*, 20:47, July 6, 1942.

[23] Warren Lee Pierson, "Solving Two Pan American Trade Problems," *Foreign Commerce Weekly*, 5:10–11, November 1, 1941.

payable against certificates of manufacture rather than shipping documents. This plan has amounted to a form of governmental credit insurance on foreign trade transactions of United States exporters. Special lines of credit have been established where neither importer nor exporter is willing to assume the risks of delivery. Thus the bank became a "clearing house" to facilitate the release of capital that was tied up to purchase or order United States goods. This plan was apparently launched as a wartime device but might perhaps be extended as a post-war activity.

A sharp conflict continues to exist as to the future role of the bank, as epitomized by Mr. Pierson's statements. As the Export-Import Bank is driven further toward sponsorship of long-range development projects, some cheer and others protest. It has been suggested that the emergency functions of the bank be given to the Stabilization Fund or some other agency, and that the bank concentrate upon such projects.[24] Thus the United States might provide in the Export-Import Bank a regulated capital market for Latin America, furnishing financial resources and facilities needed to develop strategic resources, industrial production, and other aspects of their economies. Many who have long supported this position state that the new bank funds authorized in late 1940 should enable the United States to promote new industry and commerce on reasonable terms.[25] Another observer has claimed that public investment by the United States should be employed to encourage a huge Latin American housing program, as well as to encourage industry and agriculture.[26]

Still another suggestion is of considerable interest.[27] The emergency phase of financial assistance would be replaced as promptly as possible by a long-run economic program, largely through the initiative of the United States. This program would aim at: first, development of new sources of supply in Latin America; second, increased utilization of Latin American resources for local consumption; third, adjustments in

[24] "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, 17:92, June 15, 1941.

[25] Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367:93, February, 1941.

[26] Gonzalez Alberdi, "Pan-America Faces World War Problems," *Living Age*, 357:467–469, January, 1940.

[27] "Export-Import Bank Loans to Latin America," *Foreign Policy Reports*, 17:84–85, June 15, 1941.

our economy to permit greater importation of Latin American products currently competitive; fourth, study of methods, commercial or otherwise, by which surplus commodity marketing in Latin America might be more effectively distributed among the nations of that region. These long-term objectives, it is insisted, require capital investment in the form of men, money, and machines. It is relatively unimportant whether the funds are supplied by the government or by private interests, but they must be supplied and on terms not reminiscent of financial imperialism.

Other observers, however, oppose the utilization of bank funds for such objectives, as revealed by this categorical statement: "Foreign trade and foreign investment, historically and in a very special sense, belong to the field of private enterprise." [28] The bank, it is claimed, should not finance any Latin American projects which private capital is reluctant to hazard, since such activity might imperil the taxpayers' money.[29] As a substitute for such Export-Import Bank loans, further protection by the United States government of private investment in Latin America has been proposed. The bank would supplement American banking and private enterprise but in no way replace it or launch into unexplored fields.

Other United States Loans to Latin America

Although the Export-Import Bank has been the primary agency through which United States public funds have been channeled to Latin America, other government agencies have also participated.

Congress has made repeated appropriations to various departments, bureaus, and agencies which have been employed to assist Latin America. The Departments of Commerce and Agriculture have utilized such appropriations to make very extensive rubber surveys. The latter department has also employed large sums for cooperative strategic material projects with Haiti, Costa Rica, Brazil, and several other countries. The Bureau of Mines has surveyed geological and mining possibilities in Latin America, and has improved technologies in order to render

[28] William Culbertson, "Economic Defense of the Americas," *Annals of American Academy*, 211:196, September, 1940.

[29] William Culbertson, *Economic Relations with Latin America*, pp. 10–11.

low-grade ore commercially feasible. Congress has appropriated $20,000,000 to be used in supplying not over two-thirds of the funds necessary to extend the Inter-American highway through much of Central America, the Export-Import Bank loaning to help pay the other one-third. Such examples of direct or oblique aid, authorized by Congress and administered through various channels, are numerous.

The Treasury Stabilization Fund has also been employed to bulwark Latin American exchange conditions. In January, 1941, a $50,000,000 credit was offered to Argentina.[80] Since her legislature was reluctant to approve the credit, no immediate disbursements followed. Brazil, Ecuador, and Mexico have also been offered assistance by the United States Treasury Stabilization Fund.

Lend-Lease funds have also been utilized in Latin America. Up to October, 1941, $150,000,000 of such aid had been extended to Chile, Uruguay, Brazil, and Haiti,[81] and the total has markedly increased since that time. Brazil has received most of these funds, largely for great new air and naval installations, but other nations have likewise been recipients. Although military objectives are uppermost, many of these loans have improved transportation facilities and are otherwise of long-range significance. A Lend-Lease agreement between the United States and Bolivia, concluded at the end of 1941, was reported to involve construction of asphalt roads, assistance of agricultural and livestock industries, and stimulation of small mining enterprises.[82]

A number of loans or funds have also been made available to Latin America by subsidiaries of the Reconstruction Finance Corporation. A March, 1942, exchange of notes between the United States and Brazilian governments provided for the establishment of a $5,000,000 fund by the Rubber Reserve Company to be used in collaborating with the Brazilian government in developing raw rubber production.[83] A similar arrangement has been made with Peru, whereby the Rubber Reserve Company advanced $1,125,000 and agreed to purchase all exportable

[80] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 17*, p. 30.

[81] "Latin American Commerce That Will Last," *Business Week*, October 11, 1941, p. 3.

[82] "Bolivia Gets Lease-Lend Aid," *Pan American News*, 2:11, December 19, 1941.

[83] "The Americas and the War, Part II," *Bulletin of Pan American Union*, 76:283, May, 1942.

Peruvian rubber supplies.[84] The Metals Reserve Company and similar subsidiaries have made similar commitments on occasion.

An innovation in 1942 was the agreement of the Commodities Credit Corporation to purchase that portion of Peruvian cotton production over domestic sales and exports to other countries.[85] This agreement was to last for the duration of the war, and was to involve not over 200,000 bales of cotton annually. Peru also agreed to shift as far as possible to the production of flax, rice, beans, and other products useful during the war.

It has also been argued that the gold and silver purchase programs of the United States, although not involving loans, have had somewhat similar economic consequences.[86] It is true that these programs, as well as the purchasing of strategic raw materials, have provided purchasing power and made available much dollar exchange. They do not, however, involve repayment, nor do they necessarily bring long-range development.

Public Investment by Latin American Nations

An interesting recent development in Latin America has been the growth of special banking agencies or other government facilities for public investment. Many countries have established special banks, new divisions of existing central banks, or separate bureaus, for that purpose. Most of these new institutions, however, are more concerned with short or intermediate term credit, and with facilitation of trade, than with long-term development.

An example is the National Foreign Trade Bank of Mexico, founded in 1937.[87] This bank was established to furnish financial and credit assistance to exporters, with investment more or less incidental. A more recent instance is the Export-Import Bureau of the Bank of Brazil, estab-

[84] "Agreements between the Governments of Peru and the United States," *Bulletin of Pan American Union*, 76:355–356, June, 1942.

[85] *Ibid.*, p. 356.

[86] See Frank Whitson Fetter, "The Role of Governmental Credit in Hemispheric Trade," *Law and Contemporary Problems* (School of Law, Duke University), 8:721–736, Autumn, 1941.

[87] "The National Foreign Trade Bank of Mexico," *Bulletin of Pan American Union*, 71:801–802, October, 1937.

lished in May, 1941.[38] This bureau was established for the purpose of stimulating the export of native products and assuring the most favorable terms for importation of foreign products. It was empowered to tender financial aid to exporters and importers; purchase and store Brazilian goods for export; purchase foreign products needed for the economy; and assist in elaboration of financial or trade agreements. A presidential decree of April, 1942, however, gave the Bank of Brazil control of the entire rubber trade and authorized it to finance the manufacture of Brazilian rubber products.[39]

In the spring of 1942, the Bolivian Agricultural Bank was created by the government and central bank.[40] It will organize exchange for agricultural and industrial products; buy raw materials for distribution to industry; and import seeds, fertilizers, purebred livestock, raw materials, machinery, and tools for farming purposes. Apparently this institution is also prevented by inadequate capital from engaging in long-term development investments.

Such banks, bureaus, and agencies are largely precluded from large-scale investment by the fact that Latin America is a debtor area with a minimum of local capital. Nevertheless, a January, 1942, Mexican executive order provided for the creation of a fund of 1,000,000 pesos in the National Bank of Agricultural Credit.[41] This fund was to be used for loans up to 50 per cent of cultivation cost to farmers growing olives, coconuts, rubber, rubber and cacao, or rubber and coffee for the purpose of ultimately supplying markets for vegetable oils and other raw materials now unobtainable from the Far East.

For the same reason that few large development projects have been financed with local capital, there has been little intra-Latin American public investment. There are no Latin American banks corresponding to our Export-Import Bank, largely because available local capital is needed at home. Argentina, however, has made certain rather significant loans to Bolivia as an outgrowth of the River Plate conference.

[38] "Export-Import Bureau Established in Bank of Brazil," *Foreign Commerce Weekly*, 4:9–10, July 12, 1941.

[39] "The Americas and the War, Part III," *Bulletin of Pan American Union*, 76:344, June, 1942.

[40] "Bolivian Agricultural Bank," *Bulletin of Pan American Union*, 76:356–357, June, 1942.

[41] "The Americas and the War, Part II," *Bulletin of Pan American Union*, 76:279, May, 1942.

In February, 1942, an Argentine agreement to advance 12,200,000 pesos to Bolivia to finance a connecting railroad went into effect, pending ratification.[42] She also arranged to advance 10,000,000 pesos for road construction after a joint survey could be undertaken.[43] If additional sums are needed to finish the projected roads they will be advanced under similar arrangements. Both loans are guaranteed by the production of the Bolivian oil fields, and at least the railroad loan can be repaid in crude oil or fuel oil. Further loans for the construction of a pipe line linking the two nations and for well drilling and oil exploration have been considered.

A comparable loan was finally negotiated in May, 1942, providing an outlay of 100,000 contos de réis by Brazil to Paraguay.[44] The latter country was to launch an economic and financial developmental program with the proceeds, including a public works program to be executed within a few years. This loan is of particular significance, since it was extended to an undeveloped nation oriented primarily toward Argentina.

The Proposed Inter-American Bank

The most grandiose and far-reaching proposal involving public investment in the hemisphere has been the attempted launching of the Inter-American Bank. Such a project has been discussed sporadically for over half a century.[45] The First International Conference of American States, in 1890, adopted a resolution recommending that governments grant liberal concessions to facilitate an International American Bank. Some fourteen nations, including the United States, signified their approval, but nothing further came of the proposal. In 1902, at the second such conference, a resolution recommended that a powerful intra-American bank be set up in New York, Chicago, San Francisco, New Orleans, or any other important mercantile center. Again there was substantial agreement, but again the resolution was not translated

[42] "Argentine-Bolivian Railroad Treaty," *Bulletin of Pan American Union*, 76:354–355, June, 1942.

[43] "Argentine-Bolivian Agreement on Highway Construction," *Bulletin of Pan American Union*, 76:355, June, 1942.

[44] "The Americas and the War, Part VI," *Bulletin of Pan American Union*, 76:539, September, 1942.

[45] This historical sketch is taken from "Convention on the Inter-American Bank," *Bulletin of Pan American Union*, 74:446–448, June, 1940.

into action. The idea was discussed at length at the First Pan American Financial Conference in 1915, and again at the Seventh International Conference of American States. It was not until November, 1939, however, that this project was seriously pushed and an elaborate convention drafted. The Inter-American Financial and Economic Advisory Committee, created in September, 1939, at the Panama Conference, devoted much of its attention to the creation of such a bank.

In May, 1940, diplomatic representatives of the United States, Bolivia, Colombia, the Dominican Republic, Ecuador, Mexico, Nicaragua, Paraguay, and Brazil signed a convention for the establishment of an Inter-American Bank.[46] The bank was to start operation when five countries ratified and deposited their ratification with the Pan American Union. At least 145 of the minimum of 205 shares must be subscribed, which means that the larger signatory nations must ratify. During the first two years after the signing of this draft convention, only Mexico ratified, and she did not deposit her ratification.

The purposes and powers of the bank, as described in the draft convention, illustrate the breadth of this institution.[47] The bank would possess all powers necessary to implement the very sweeping objectives specified in the convention. It would be empowered to encourage investment in the hemisphere; assist in stabilizing currencies and monetary systems; increase hemispheric trade; facilitate research in the technology of agriculture, industry, public utilities, mining, and commerce; and contribute expert advice on public finance, exchange, money, and banking. Obviously such an institution, if it were actually established and possessed adequate resources, might well assume many of the functions recently taken over by the Export-Import Bank.

The mechanics of the bank need little elaboration, since the details might well be modified before the institution was actually established. The bank would be chartered, according to the draft convention, in the United States, and could make long-, medium-, or short-term loans. It would also be empowered to engage in nearly all other banking activities performed by large private banks. It would inaugurate operations with a capital of $100,000,000, with 1,000 shares outstanding.[48]

[46] *Ibid.*

[47] Pan American Union, *Convention for the Establishment of an Inter-American Bank*, pp. 14–17.

[48] *Ibid.*, pp. 8–10.

Each nation would subscribe for a prescribed minimum number of shares, determined in relation to the value of the total foreign trade of each American republic in 1938. This criterion indicates that such nations as the United States, Argentina, and Brazil would assume a significant portion of the initial financing burden.

The draft convention sets up the skeleton organization of the Bank in some detail. The institution has been given such enormous powers of discretion, however, that its policy could range from preferential aid to governments to sponsorship of private investments. A study of possible bank policy might afford some insight into the scope and role of such an agency.[49]

Granting loans to balance budgets of Latin American governments might be justified as an emergency, depression-born measure. Such a course, however, might exhaust the resources of the Bank if such budgetary deficits proved to be large and protracted. Since many such deficits arise from inadequate fiscal structures, scanty natural resources, prodigal spending, loss of foreign markets, declining world prices, technological change, wars, or political instability, a wholesale balancing of budgets might well be an untenable policy.

Many have suggested that such a bank might loan to central banks in order that they may maintain their exchange rates. Specifically, an assistant secretary of state has maintained that the most important function of the bank would be to eliminate the necessity of constant balancing of exchange between American nations.[50] Since exchange stability might be maintained artificially while basic economic disequilibrium continued to exist, such credits might not improve the basic economic position of a nation. That country's economic capacity would not be increased, and such credits might even facilitate the continuance of maladjustments which would otherwise be corrected. In any event, such a course would tie up the resources of the bank in the performance of an essentially short-run function.

Another function of the bank might be to assist in carrying out public works programs. A number of such enterprises might be initiated by the various nations and sponsored by the bank. Such projects would

[49] This analysis taken in part from Eduardo Villasenor, "The Inter-American Bank: Prospects and Dangers," *Foreign Affairs*, 20:165–174, October, 1941.

[50] A. A. Berle, Jr., "Peace without Empire," *Survey Graphic*, 30:107, March, 1941.

include highway construction, building of dams and hydroelectric plants, and improvement of port facilities.

A number of other spheres might also be entered by the bank, including opportunities which private banks or firms might not now be in a position to exploit. One suggested program of Inter-American Bank investment would encompass a combination of public works and general development. First, land improvements designed to increase the yield of commodities readily marketable at home or abroad, such as rubber. Settlement schemes would fall within this category, such ventures requiring assumption by the government of the greater share of the investment burden and risk. Second, the establishment, improvement, or modernization of factories producing goods with an assured home market and possible markets abroad. Third, the establishment and development of hydroelectric generating plants, preferably in order to facilitate industrial growth. Fourth, the construction of hotels and other facilities needed to increase the tourist trade. Fifth, the expansion of steamship lines and shipyards, especially to serve regions now rarely visited by ships. Sixth, the development of air routes in regions not yet touched by large commercial air lines.

Certain of these fields, however, would involve heavy outlays and appreciable risks. Shipping, for example, is a notoriously hazardous outlet for private investment. That would be especially true in the extension of shipping facilities to regions previously undeveloped. Public policy, of course, might dictate absorbing losses in order to achieve national ends.

In certain other instances, the bank might merely subsidize or assist ventures in their early stages. Factories, hotels, and airlines, for example, might well be undertaken by private capital and encouraged by the bank. Such a policy, however, would have to be premised on the recognition that subsequent removal of such subsidies might be very difficult.

Conclusion

Public investment in Latin America is a relatively new phenomenon, having first attained significant proportions late in the 1930–1939 decade. Indeed, it was not until World War II that large-scale, long-range public investment finally materialized. Largely because such outlays are new, much uncertainty and controversy continues to exist

as to the probable scope and function of public investment in Latin America. When the Export-Import Bank began operations, it was concerned primarily with short-run, small-scale operations designed to assist exporters and stabilize the exchanges. Under the pressure of the times, the bank has gradually assumed a rather different function. It has come to assist highway and other transport improvement, promote development of national resources, and encourage Latin American industrialization. Meanwhile, other United States loans or grants to Latin America have been channeled through Lend-Lease, the Treasury Stabilization Fund, subsidiaries of the Reconstruction Finance Corporation, and various other agencies.

Because local capital has long been scarce in Latin America, both domestic and intra-Latin American public investment have been very rare. The proposed Inter-American Bank, however, would presumably channel funds from all participating nations into those areas requiring capital. While actual launching of this project has been long delayed, the framework and powers of the bank have been sketched in a draft convention signed but not ratified by many nations. Although differences of opinion exist as to the precise function of such an institution, its major sphere of operation seems likely to be long-range development.

Chapter 9

UNITED STATES TARIFF POLICY IN LATIN AMERICAN TRADE

LATIN AMERICAN nations have been affected by the international commercial policy of the United States from the beginning of trading relations between the two areas. United States commercial policy in its application to Latin America has centered largely in the tariff, although other types of trade restrictions have also been employed. The purpose of this chapter is to survey United States tariffs as they apply to Latin American products. Brief comment will be made of changes in rates since the passage of the Reciprocal Trade Agreements Act in 1934, but specific analysis of the program is reserved for separate treatment in the following chapter. The nontariff aspects of United States commercial policy will be discussed following the analysis of the trade agreements program in Latin America.

Tariff history in the United States is largely a series of legislative acts aimed at preserving domestic markets for home producers and, at the same time, expanding American participation in international markets. There were some people who questioned protective tariff measures on the ground that selling and buying in international trade are only two parts of the same process. This obvious and economically sound objection bore some fruit as evidenced by downward tariff revision from time to time. The overall characterization of American tariff policy, however, is an upward moving trend of protectionism.

Increasing interest in Pan Americanism has facilitated some changes in the traditional policy of the United States as recent events seem to point toward greater economic cooperation between the two areas. The significance of recent developments, however, is more meaningful when related to the conduct of inter-American relations prior to the early 1930's.

Traditional Commercial Policy

The United States took an interest in the Latin American states at the beginning of their period of independence and was among the first to recognize the states as they threw off the yoke of Spanish and Portuguese rule. Treaties of amity and commerce were negotiated and intense interest was manifested in the newly created republics.[1] While the United States was in the early stages of its economic development, commercial relations with Latin America were considered profitable, inasmuch as they led to a trade balance in favor of this country. This favorable balance, however, was not a permanent one. In the decades from 1830 to 1850, United States purchases in Latin America grew at a faster pace than sales in that area, bringing about a balance in favor of Latin America. That so-called unfavorable balance grew at an even more rapid rate as the economic development of the United States placed greater and greater demands upon the raw materials and foodstuffs of Latin America. From an economic point of view, however, a sound basis was seen to exist for the development of trading relations. Many Latin American products could be admitted to the United States duty free without disturbing the protective tariff system, and manufactured products could be sent in return payment. The commercial transactions between the two areas were influenced, however, by wars and disputes among the new nations of the Western Hemisphere. Commercial interests were still maintained, but attention was turned toward more formal political cooperation. This cooperation took the form of a series of Pan American conferences beginning in 1889 and continuing to the present time. At all such conferences matters of common economic interest merged with discussion of international politics.

From the gaining of independence to the last decade of the nineteenth century the economic development of Latin America was slow, and foreign trade of the United States with that area was not large. Prior to World War I, Americans were concerned with the development of their own country, and the European economic interest in Latin America, particularly in terms of invested capital, was definitely greater than that of the United States. The significance of American capital in

[1] H. J. Trueblood, "Progress of Pan American Cooperation," *Foreign Policy Reports*, 15:287, February 15, 1940.

Latin America since World War I has already been analyzed in a preceding chapter, but it must be emphasized at this point that a desire for profits from investment and trade led to an aggressive policy toward Latin America.[2] The role played by the United States in the economic life of Latin America took on increasing significance, and huge loans served to maintain the improved position this country gained as a result of the first World War.

Along with this increased economic influence, a policy of intervention leading to the presence of United States armed forces in certain Latin American countries served to arouse suspicion and hostility which developed into distrust of what many called the "Yankee Colossus of the North." This period in inter-American relations has been referred to as one of active imperialism by the United States.[3] Criticisms of "dollar diplomacy" and "paternalism" became the order of the day. Then came the discouragement and depression of the 1930's, followed by the German trade drives and the European successes of the Nazi military machine.

Such conditions as these have demonstrated to peoples of the Western Hemisphere the desirability of closer inter-American relations and, as a result, United States policy towards the Latin American nations has turned to one of collaboration. During the past few years many elements of the former relationships have changed in the interest of greater cooperation. Intervention has been abandoned, military forces of the United States have been withdrawn, the United States has cooperated in the establishment of peace machinery, and tariff barriers, built in accordance with American protectionism, are undergoing change. "Dollar diplomacy" and "Yankee imperialism" have given way to the policies of the "good neighbor."

Despite the change in United States policy toward Latin America, a permanent readjustment in inter-American relations must cope with the problems of trade and finance between the two areas. If nations lacking common background are to achieve solidarity and security, a material basis must be created upon which that security can be built. That basis in international relations must ultimately be one which allows for the use of economic resources in commercial intercourse. Continued mutual good will in buying and selling is necessary to realize

[2] J. F. Rippy, *South America and Hemisphere Defense*, Chapter I.
[3] H. J. Trueblood, *op. cit.*, p. 291.

the potentialities of all nations participating in international trade. Economic life in Latin America is so largely dependent upon export trade that any measures pointing toward greater economic security must affect foreign trade. If hemispheric solidarity is linked with increased economic security, the conditions affecting Latin American sales in United States markets are of extreme importance.

Scope of Traditional Tariff Policy

As has been shown in preceding chapters, the greatest share of United States imports from Latin America are agricultural and pastoral products. These import items may be divided into two groups: those which cannot be produced in this country, and those which can be produced in the United States or may readily be substituted for domestic products. Tropical products, such as coffee, bananas, cacao, and certain fibers, are representative of the first group, products which are complementary to the United States economy. Such products make up approximately one-half the agricultural and pastoral imports from Latin America and enter duty free or at moderate rates. Included in the second group of these items, and known as supplementary products, are such commodities as sugar, vegetable oils, oilseeds, cattle, hides, certain types of wool, and tobacco. This group of items normally comprises somewhat less than one-half of the agricultural and pastoral imports into the United States. Production in the United States in this group is not sufficient normally to meet domestic requirements, regardless of the application of import duties.[4] Some feed grains are imported by the United States when crops are poor but normally are not important items.

Despite the complementary nature of many import commodities from Latin America, however, nearly 40 per cent of the total value of United States imports from Latin America in 1938 was subject to tariff duties or import excise taxes.[5] From 1936 to 1938, a larger proportion of import trade with Latin America was subject to customs duties than was import trade with other portions of the world. The proportion of dutiable trade to total trade with Latin America in 1936 was 47 per cent, whereas United States trade with other countries in that same year

[4] L. A. Wheeler, "World War Hemisphere Trade and the American Farmer," *Foreign Agriculture*, 5:3–12, January, 1941.

[5] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 87.

showed 43 per cent of total trade dutiable. In 1937, 48 per cent of Latin American trade was dutiable as compared to 41 per cent with other countries, and in 1938 the corresponding figures were 40 per cent and 39 per cent.[6] In contrast to treatment of imports from Europe, duties on Latin American products are concentrated among a few products, the principal items being sugar, flaxseed, petroleum, tobacco, hides and skins and canned beef. Copper and petroleum are subject to special provisions of the Revenue Act of 1932.

The share of dutiable items in the total of Latin American sales in the United States has increased considerably since 1929. In some cases, this is because important commodities have been added to the dutiable list; in other instances, an increase in dutiable imports comes merely as a result of increased demands for Latin American products. Other factors influencing a change in the ratio of dutiable imports are fluctuations in prices, temporary shortages in the United States (such as an increase in imports of corn from Argentina in 1937, because of a small 1936 crop in the United States), reductions in tariff rates as a result of trade agreement concessions, increases in former duties, and technological developments which call for increased purchases of certain raw materials.

Generally speaking, dutiable imports from Latin America are also subject to higher average rates of duty than comparable imports from other portions of the world. In 1938, the equivalent ad valorem base for dutiable imports from Latin America was 48 per cent as compared with 37 per cent for other countries.[7] This difference is due, in considerable measure, to the rate of duty on sugar which is higher than most dutiable imports and which makes up almost one-half of the value of total dutiable imports. The equivalent ad valorem rate for sugar from Latin American countries is 53.8 per cent.

Commodity Analysis

Despite the influence of the factors mentioned above upon the ratio of dutiable imports to total imports, such ratios do give an approximation to the significance of dutiable commodities to total imports. The following discussion of tariff rates is based upon United States imports

[6] *Ibid.*, p. 89.
[7] *Ibid.*, p. 91.

from Latin America by commodity groups, and will analyze the important commodities in each classification.

A word of caution is necessary at the outset concerning various percentages of dutiable imports which will be mentioned. For example, the commodity group showing the highest ratio of dutiable imports to total purchases within the group, animals and animal products which are edible, ranks sixth in total value of imports by commodity groups.[8] Vegetable food products and beverages, which, as a group, rank first in terms of value, are sixth in terms of ratio of dutiable imports to total purchases within the group. Although machinery and vehicles are the least important in terms of value, 60 per cent of the total value of the items in this classification is dutiable. High ratios do not necessarily portray the significance of tariff restrictions. It could be argued in some cases that the value of commodities imported would increase were it not for prevailing duties. On the other hand, it could also be argued that a high ratio of dutiable imports is insignificant because the commodities in question are normally produced domestically. Nevertheless, such analysis does bring out the nature of tariff restrictions imposed by the United States upon Latin American products, and the various commodity groups will be analyzed in order of value.

Coffee, Sugar, Bananas, Cacao, and Molasses

The leading commodity group of United States imports from Latin America in terms of value is vegetable food products and beverages with a ratio of dutiable to total imports of 37 per cent. The important items in this group are coffee, sugar, bananas, cacao, and molasses.

In 1938, Latin America supplied four-fifths of the coffee entering international trade, with Brazil leading the world both in production and export.[9] Colombia, the leading producer of mild coffee, ranks next as an exporter and is followed by the Netherlands Indies, El Salvador, and Guatemala. Practically every Central American Republic, as well as Mexico and the islands of the West Indies, are producers and exporters of coffee.

[8] See Appendix, Table 36, p. 428.

[9] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, pp. 83–87.

The United States is the greatest consumer of coffee in the world, over nine-tenths of her imports in the years 1936 to 1938 coming from Latin American countries. Coffee enters the United States duty free, and continued free entry is guaranteed by trade agreements with ten Latin American countries.

Latin American countries produce about 18 per cent of the total world production of sugar, Cuba alone accounting for 10 per cent of the world total and more than one-half the total sugar production of Latin America.[10] Other sugar-producing countries in the area are Brazil, Argentina, the Dominican Republic, Peru, and Mexico. Brazil and Argentina consume practically their entire production. Latin America accounts for 30 per cent of world exports, with Cuba alone accounting for one-fifth the world's total. The Dominican Republic and Peru are the other important sugar-exporting countries in Latin America, their sales consisting principally of raw sugar. Approximately two-thirds of Cuban sugar comes to the United States. The United States takes two-fifths of Haiti's sugar exports, one-fifth of Peru's, and slightly more than one-tenth of the Dominican Republic's.

Since 1934 the marketing of sugar in the United States has been limited by law. The secretary of agriculture designates the maximum quantity to be marketed, and quotas are assigned in accordance with a formula provided by statute. Approximately one-third of the sugar consumed in the United States in 1938 was supplied by domestic production, and imports from Cuba accounted for about 29 per cent of United States consumption.

The general duty on sugar entering the United States is 1.87 cents per pound, imports from Cuba, however, paying a duty of 0.75 cent per pound in accordance with trade agreements signed with that country.[11] Sugar from the Philippines, Hawaii, Puerto Rico, and the Virgin Islands enters duty free. Imports from these countries normally amount to almost 40 per cent of United States consumption.[12] The abandonment of the sugar quota system and removal of tariff protection would undoubtedly open United States markets to increased Latin

[10] *Ibid.*, Vol. 2, pp. 409–420.

[11] "Second Supplementary Trade Agreement with Cuba," *Foreign Commerce Weekly*, 6:10, January 3, 1942.

[12] Constant Southworth, "Toward Free Trade with Latin America," *Foreign Policy Reports*, 17:181, October 1, 1941.

American competition. In the absence of tariff preferences now granted Cuba, the Dominican Republic and Peru might take a larger share in the United States market.

Molasses (Blackstrap) is a by-product of the sugar industry, and its output varies directly with the production of sugar. Cuba leads in the volume of exports from Latin American countries, followed by the Dominican Republic and Haiti. Practically all the exports from these three countries go to the United States. In accordance with the Tariff Act of 1930, molasses is dutiable at 0.2 cent per gallon, which is equivalent to 3 to 6 per cent ad valorem.[13]

The production of bananas has attained its greatest development in the Western Hemisphere because of the rapid growth of the market in the United States. This country is the largest import market for bananas in the world. Approximately three-fifths of the bananas entering international trade is exported from Latin American countries, the United States taking 70 to 80 per cent of their exports. Mexico, the Central American countries, Colombia, and Cuba are all sources of supply for the United States. Bananas enter the United States duty free and have been bound on the free list in trade agreements with Haiti, Honduras, Colombia, Guatemala, Nicaragua, Costa Rica, and Ecuador.[14]

Latin American countries account for about one-fourth of the world's production of cacao beans. Brazil is the most important Latin American producer, her production being over twice as great as the other cacao-producing countries of the area combined. The Dominican Republic, Ecuador, and Venezuela are the other cacao-exporting countries. The United States normally purchases two-thirds of all Latin American exports, its purchases accounting for three-fifths of Brazilian exports. Practically all cacao beans exported by the Dominican Republic, one-third of Venezuela's exports, and all but a small amount of Ecuador's sales are taken by the United States. Cacao beans enter the United States duty free, and, although this market is the principal one for Latin American countries, less than one-half of total United States imports comes from this source.[15]

[13] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, pp. 425–429.
[14] *Ibid.*, Vol. 1, pp. 11–31.
[15] *Ibid.*, pp. 53–63.

Flaxseed, Castor Beans, Tobacco, and Quebracho Extract

Vegetable products (inedible), except fibers and wools, rank second in the total United States imports from Latin America and bear the third highest ratio of dutiable imports to total imports.[16] The chief items in this classification are flaxseed, tobacco, carnauba wax, castor beans, and quebracho extract. Argentina produces approximately one-half the total world output of flaxseed, the source of linseed oil, and exports approximately nine-tenths of her production.[17] Uruguay also produces some flaxseed and accounts for 4 per cent of world exports of this commodity.

The United States is the principal world market for flaxseed, taking about one-fifth of total world imports, 98 per cent of which came from Argentina in 1938. United States imports from Uruguay were almost one-eighth of total flaxseed exports from that country in 1938. For many years the production of flaxseed was a declining industry in the United States, only 6 per cent of the world's production being grown here in the years 1934 to 1937. In more recent years, production in the United States has been increasing, owing to the development of disease-resisting varieties and successful rotation with other crops, particularly corn. In spite of such improvements in domestic production, however, the lower cost of production in Argentina would probably stimulate that country's sales in the United States market in the absence of import duties. Flaxseed is dutiable under the Tariff Act of 1930 at 65 cents per bushel of 56 pounds, equivalent in 1938 to 50 per cent ad valorem.

Castor beans, the source of castor oil, are imported from Brazil, that country being practically the sole supplier of the United States. More than one-half of Brazilian exports of this commodity has come to the United States in recent years, sales in this market having increased steadily since 1919. Castor beans are not grown in the United States in commercial quantities but they are dutiable under the 1930 Tariff Act at one-half cent per pound, and castor oil is dutiable at 3 cents per pound. The duty on beans was reduced to one-fourth cent per pound

[16] See Appendix, Table 36, p. 428.

[17] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, pp. 309-317.

in a trade agreement signed with Brazil, effective January 1, 1936, and imports have shown an increase since the reduction.[18]

Tobacco is an international commodity showing such distinct differences among various types that many countries both export and import this commodity. The United States and Brazil are both important exporters of tobacco, yet they are also markets for the tobacco of other nations. Tobacco is grown and manufactured in practically all the Latin American nations, primarily for domestic consumption, although Cuba and Brazil are numbered among the ten leading exporting countries of the world. The United States does not buy Brazilian tobacco, but she is the principal market for cigar tobacco from Cuba. This commodity is second in value to sugar in Cuba's export trade, and the largest part of its production, including cigars, is exported. The prosperity of the Cuban tobacco industry is significantly affected by conditions in the United States market, the mechanization of the cigar industry in this country having been a contributing factor in recent losses in the Cuban tobacco industry.[19]

The United States imposes duties on imports of raw and manufactured tobacco, and internal revenue taxes are levied on manufactured tobacco of all kinds. General rates applied in the 1930 act were 35 cents per pound for unstemmed cigar leaf tobacco, 50 cents per pound for stemmed cigar leaf, 35 cents per pound for scrap, $4.50 per pound plus 25 per cent ad valorem for cigars, and $2.275 per pound for wrapper tobacco.

Cuba has enjoyed a 20 per cent preference below tariff rates applicable to imports from other countries, and those preferences have been further continued by trade agreements. The rate on wrapper tobacco was reduced to $1.50 per pound in a trade agreement between the United States and the Netherlands, which meant, with the 20 per cent preference, a rate of $1.20 for imports of wrapper tobacco from Cuba. Preferences afforded Cuba on tobacco have very little effect upon competition between Cuban producers and other foreign producers. The special quality of their tobacco makes Cuba almost the sole source of United States imports of cigar leaf filler, scrap, and cigars.

Quebracho extract from the heart of the quebracho tree is one of the most important and widely used of vegetable tanning materials. The

[18] *Ibid.*, pp. 321–325.
[19] *Ibid.*, pp. 449–461.

extract is used primarily in the tanning of heavy leathers, such as sole leather, belting and harness, although it is also used in the tanning of light leathers. Practically all heavy leather tanning enterprises in the United States use a substantial portion of quebracho. Argentina and Paraguay account for almost all the world production of quebracho trees, and preparation of the extract is an important industry in both countries. Only a small proportion of the quebracho extract produced in those countries is consumed domestically. Argentine exports make up the chief Latin American participation in world markets.

The United States is the leading market for quebracho extract, followed by Germany, Japan, the United Kingdom, and Poland. In 1938 this country's purchases accounted for one-sixth of total Argentine exports of this commodity. Under the provisions of the Tariff Act of 1930, quebracho extract is dutiable at 15 per cent ad valorem. Quebracho wood, a small amount of which moves in international trade, enters duty free.[20]

Copper and Manganese Ore

Metals and manufactures (except machinery and vehicles), third in the total of United States imports from Latin America, have a ratio of dutiable imports to total of only 8 per cent.[21] Unrefined copper and manganese ore are the important items in this classification.

Although the United States is the world's largest copper producer and is normally on an export basis, Latin America produces almost one-fourth of all new copper mined in the world. Chile, Mexico, Peru, Cuba, and Bolivia are the leading producers in Latin America, in the order named, Chilean production accounting for almost four-fifths of the Latin American total. Direct consumption in Latin America is small, and as a group these countries are relatively more important as exporters than as producers. The United States imports relatively large amounts of copper from Latin America, principally Chile, Mexico, and Peru, but most of these imports are for refining in bond and re-export to European and other non-American markets. All but a small portion of Latin American output is ultimately dependent upon the European market. The United States imposes an import excise tax on copper

[20] *Ibid.*, pp. 383–391.
[21] Appendix, Table 36, p. 428.

in accordance with the Revenue Act of 1932, although imports entered for smelting, refining, and export are duty free. Imports of taxable copper normally amount to about 5 per cent of total copper imports.[22]

Manganese ore produced in Latin America in 1938 accounted for only about 7 per cent of world production, Brazil as the leading Latin American producer being fifth in world production.[23] Cuba is the only other substantial Latin American producer, although small quantities are produced in Chile and Mexico. Brazil and Cuba export practically their entire production. The United States is normally the most important market for Brazilian manganese, but demand is subject to fluctuations affecting the steel industry. In 1938, less than one-third of Brazilian exports went to the United States, but the entire export of Cuban manganese is sold here. The vast purchasing program of the United States as a result of World War II has increased the relative importance of this commodity in Latin American export trade.

Manganese from Cuba enters the United States free of duty in accordance with a convention between Cuba and the United States in 1902 and a trade agreement signed in 1934. The duty applicable to manganese from other countries was formerly one cent per pound but was reduced to one-half cent per pound by a trade agreement with Brazil signed in 1936.

Petroleum

Non-metallic minerals, chiefly petroleum, stand fourth as a commodity group in the total value of United States imports from Latin America.[24] The three leading world producers of crude petroleum are the United States, Russia, and Venezuela. Venezuela alone accounted for one-tenth of world production in 1939 and, along with Mexico, Colombia, Argentina, Peru, and Ecuador brought Latin America's share of world production to 15 per cent for that same year.[25] All the above-named countries, with the exception of Argentina, produce more crude oil than they consume. Venezuela alone accounts for 30 per cent of

[22] Constant Southworth, *op. cit.*, p. 176.

[23] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, pp. 233–240.

[24] See Appendix, Table 36, p. 428.

[25] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, pp. 347–356.

total world exports of petroleum and 80 per cent of Latin American exports.

The United States is on a significant export basis in both crude petroleum and petroleum products but is, at the same time, an important market for Latin American oil. Crude oil directly from Latin American countries, chiefly Venezuela, and fuel oil produced in the Netherlands West Indies from Latin American crude make up the largest share of such imports. The Netherlands West Indies is the largest importer of crude petroleum in the world but most of its imports are for refining and exporting. Refineries in the Netherlands West Indies operate chiefly on Venezuelan crude oil, taking three-fourths of Venezuela's exports, so that United States imports from the islands are in reality imports from Venezuela. In 1938, 27 per cent of exports of heavy fuel oil from the Netherlands West Indies went to the United States, whereas 13 per cent of Venezuelan exports of crude came to this market in the same year. United States imports from Latin America and the Netherlands West Indies are explained by a combination of factors. Transportation cost is one factor, since points on the Atlantic coast of this country are closer by water to northern South American than to Gulf ports. Imports are also explained by the fact that United States crude oil is relatively light in gravity and can be more profitably used in the production of gasoline, whereas the heavy crude of Latin America is more desirable for fuel oil. Another factor is the affiliation of Latin American producers and refineries with United States companies engaged in refining and marketing domestic crude. The practice of refining in bond for re-export is also a contributing factor.

Crude petroleum and its products enter the United States free of duty in accordance with the Tariff Act of 1930, but the Revenue Act of 1932 subjects them to import excise taxes. Crude petroleum and fuel oil for refining under bond and export, or for ship supply, enter tax free. With these exceptions, taxes applicable to imports range from one-half cent per gallon on crude petroleum and certain derivatives to 4 cents per gallon on lubricating oil. The tax on crude and topped crude petroleum and fuel oil, including gas oil, was reduced to one-fourth cent per gallon in a trade agreement with Venezuela, effective December 16, 1939. The reduction was limited by quota to a combined quantity of these products not greater than 5 per cent of the

quantity of crude petroleum refined in United States refineries in the preceding year.

Wool, Sisal, and Henequen

Textile fibers and manufactures, chiefly wool, sisal, and henequen, rank fifth in total value of United States imports from Latin America.[26] Wools grown in South America are, in general, coarser than those produced in most wool-exporting regions, little fine wool being produced except in certain sections of Peru and Argentina. Argentina, Uruguay, Brazil, Chile, and Peru are the important wool-producing countries in Latin America and account for approximately one-sixth of world production. Argentina is the second largest exporter of wool in the world, and Uruguay the fifth. The five South American nations named above provide one-fifth of total world wool exports.

The United States normally imports relatively little wool. Most of the world exports of wool have gone to European countries, United States imports in recent years, other than carpet wool, having declined with increased domestic production. Domestic production in the United States is made up almost exclusively of apparel wool, but variations in fineness of fiber account for importation. Imports of apparel wool come largely from sources outside Latin America, since South American wools are principally of the coarser grade not produced in large quantities in the United States.

Wools enter most importing countries free of duty. In the United States, however, the basic duty ranges from 24 to 34 cents per pound and applies to all wools except carpet wools and wools not finer than 40's imported under bond for specified uses such as floor covering. Apparel wools finer than 40's but not finer than 44's are dutiable at a basic rate of 29 cents per pound.[27]

Henequen is used in the manufacture of binder twine, as filling material in upholstered furniture, and in the manufacture of small ropes. The major part of the world's supply is produced in Mexico, although Cuba and El Salvador are also producers. The United States is the principal market for henequen, taking over 80 per cent of exports from Mexico and 99 per cent from Cuba. Sisal, used chiefly in the manu-

[26] See Appendix, Table 36, p. 428.

[27] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, p. 520.

facture of wrapping twine and small ropes, is of little importance in Latin America in relation to world production, minor amounts coming from Haiti. Imports of henequen and sisal are included in the same total in United States trade statistics and enter free of duty.[28]

Canned Beef and Cattle

Animals and animal products (edible), the sixth ranking commodity group in terms of value, have a ratio of dutiable imports to total purchases in the group of almost 86 per cent.[29] This classification is made up chiefly of canned beef, and cattle from Mexico.

Three countries in Latin America are large exporters of meats, predominantly frozen or chilled beef. These three, Argentina, Uruguay, and Brazil, dominate the world's export trade in frozen and canned beef. Canned meat is a minor item in Latin American exports, although the three nations named above accounted for more than nine-tenths of total world exports of this item.[30] Importations of canned beef by the United States come largely from Argentina and Uruguay.

The story of canned beef in recent discussions in the United States presents an illuminating example of the "hangover" of traditional American protectionism and, in a sense, is typical of the formerly widely held attitudes toward trading relationships with our southern neighbors.[31] There has been no commercial production of canned beef in the United States comparable to that imported from Latin America, since 1927, and imports compete very little with the lower grades of fresh meats. Increased foreign competition coming from canned beef would concern only the less important part of domestic production, and its effect would not be concentrated in any one geographical area in the United States. American consumers in general prefer fresh meat, and this preference would undoubtedly limit importations of canned beef.

The United States Tariff Act of 1930 raised the duty on fresh and frozen beef from 3 cents to 6 cents per pound, but imports from South America were not affected because of the existence of a sanitary embargo

[28] *Ibid.*, Vol. 1, pp. 171–181.
[29] See Appendix, Table 36, p. 428.
[30] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, pp. 259–264.
[31] Percy W. Bidwell, *Economic Defense of Latin America*, pp. 66–68.

imposed by the United States effective January 1, 1927. This sanitary embargo forbids the importation of fresh, chilled, or frozen meat from any foreign country in which the hoof and mouth disease exists. In accordance with this provision, Argentina has been able to send only cured meat to the United States. The import duty on canned beef is also set at 6 cents a pound. As a result of the sanitary embargo, the United States has practically ceased to be a market for other than cured or canned meats from Latin America since January 1, 1927. The only exception to this statement is beef in the form of live cattle from Mexico. Import barriers undoubtedly restrict markets for chilled and frozen beef. Argentina beef is of acceptable quality and could be sold in the United States at lower prices than beef of comparable grade produced domestically.

Sodium Nitrate

Chemicals and related products, consisting principally of sodium nitrate, rank seventh in the total of United States imports from Latin America by commodity groups.[82] Chile is the only important source of sodium nitrate, and practically all its production is exported. The increased consumption of synthetic nitrogen since 1930 has been a severe blow to Chile, its share of world production of nitrogen decreasing from 55 per cent in 1913 to 4 per cent in 1933. Exports have increased since that low point, but 1938 output was only 8 per cent of world production. The United States is normally the best market for Chilean nitrate, accounting for 40 per cent of total Chilean nitrate exports in 1937. No import duty is levied on this commodity.[83]

Hides and Skins

Animals and animal products (inedible) were eighth in value of United States imports from Latin America in 1938.[84] Cattle hides, sheep and lamb skins, goat and kid skins, and wild pig and hog skins make up the chief commodities in this classification.

[82] See Appendix, Table 36, p. 428.

[83] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 2, pp. 281–292.

[84] See Appendix, Table 36, p. 428.

Argentina is the leading producer and exporter of cattle hides, followed by Brazil and Uruguay. In the period from 1929 to 1938, Argentina ranked as the world's largest exporter, its domestic tanning industry consuming only about 15 per cent of its cattle hides. Normally about one-half of total United States imports of cattle hides come from Argentina. The domestic supply of similar hides in the United States is not sufficient to meet the requirements of the domestic tanning industry, although lighter hides are exported by the United States in considerable volume. This country customarily ranks next to Germany as a market for Argentine and Brazilian hides, but is not so important as a market for hide exports from Uruguay. The United States ranked eleventh as an export market for Uruguayan hides in 1938.[35]

Argentina, Uruguay, Chile, and Brazil are the principal Latin American producers and exporters of sheep and lamb skins, Argentina being, by far, the leading producer. Since production of these skins in the United States is insufficient, this country is a relatively large importer. In 1938 the United States accounted for slightly over one-fifth of Argentine exports of sheep and lamb skins, France, the leading market, taking three-fifths. Uruguay is the next most important producer but a minor source of United States imports. Imports from Chile are not large, since most United States purchases are confined to one special type of skin produced in that country. Brazil, ranking fourth as a producer, sends approximately four-fifths of its exports to the United States.

Goat and kid skin production in Latin America is confined largely to Brazil, Argentina, and Peru. The United States is a large importer, accounting for 95 per cent of such exports from Brazil, 80 per cent from Argentina, and 90 per cent from Peru.

The United States is entirely dependent upon imports of wild pig and hog skins used by domestic industry in the manufacture of glove leather, and practically all imports come from Brazil, Argentina, Peru, Uruguay, and Mexico, the principal Latin American producers.

Prior to the passage of the Tariff Act of 1930 all hides and skins were admitted to the United States free of duty. Under this act, however, bovine hides and skins (except hides and skins of India water buffalo used in manufacture of rawhide articles) are dutiable at 10 per cent ad

[35] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, pp. 190–204.

valorem. All other raw hides and skins were continued on the free list. Before 1939, the United States was the only important hide-consuming country levying duties on imports of raw hides and skins.

Wood

Wood and paper rank tenth in the value of United States imports from Latin America, cabinet woods being the chief item.[86] Latin America is not an important exporter of timber, owing largely to the nature of its forests, approximately nine-tenths of the total forest area consisting of hardwoods. Timber and wood export trade of Latin America consists chiefly in cabinet and specialty woods sold to the United States and Europe. Brazil is an important exporter, her cabinet woods going chiefly to the United States. Mexico exports pine and cabinet woods, such as mahogany and prima vera, the United States being the most important market for both types. Balsa from Ecuador, Spanish cedar and mahogany from Cuba, pine and mahogany from Nicaragua, and prima vera from Venezuela are other United States lumber imports from Latin America. In 1938, three-fourths of the mahogany imported into the United States came from Latin America. Logs and some sawed forms are admitted free of duty, but most sawed cabinet woods are dutiable and sawed lumber is subject to an import excise tax.[87]

Wheat

Latin American exports, as shown by the commodity groups discussed above, include commodities in which the United States ordinarily has an exportable surplus as well as commodities in which United States imports normally exceed exports. Petroleum and copper, commodities in which the United States has an exportable surplus, have been discussed, but one of the most significant and troublesome export surpluses of the Western Hemisphere, wheat, has not been included in the above classifications.

Normally the United States exports large quantities of wheat and imports very little, short crops being the only explanation of purchase of

[86] See Appendix, Table 36, p. 428.

[87] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, pp. 491–508.

foreign wheat by this country. Argentina is the only Latin American country in which wheat growing is an important industry and in which the major portion of production is exported. The United States buys practically no wheat from Argentina, and much of the wheat exported by the United States is similar to the principal types exported by Argentina. The United States tariff rate on imported wheat is 42 cents per bushel of 60 pounds.[88] The fact that United States wheat competes with Argentine wheat in European markets indicates that removal or lowering of the duty would probably not result in significant sales in the United States by Argentine producers except perhaps at "bargain prices."

Cotton

Other Latin American exports not mentioned in the preceding analysis are long staple cotton, zinc, lead, corn, and winter vegetables and fruits. These are commodities which the United States normally imports and, although such imports are not significant in total value, they are all dutiable and therefore are of some consequence in inter-American trade relations.

Brazil, Peru, Argentina, and Mexico are the principal cotton-producing countries in Latin America, all but Peru growing cotton similar to that grown in the United States. Peruvian cotton, however, is typically longer than average United States cotton, and exports of long staple cotton to the United States were a part of the normal trade between the two countries prior to the passage of the 1930 Tariff Act. Ordinary long staple came to the United States from Egypt and Peru, and some exports of long staple from the United States entered world markets. Differences in characteristics of the cotton of the three countries made this type of international exchange possible.

Long staple cotton, which was free of duty under the Tariff Act of 1922, was made dutiable at 7 cents per pound by the Tariff Act of 1930, and quotas on imported cotton have been imposed since 1939.[89] Before the imposition of this duty, approximately 20 thousand bales of Peruvian cotton were used in the United States annually, along with large quantities of Egyptian cotton. These imports accounted for ap-

[88] *Ibid.*, p. 484.
[89] *Ibid.*, Vol. 1, pp. 160–170.

proximately 12 per cent of Peruvian exports of cotton in 1929, a commodity which normally constitutes about one-fifth of the total value of all exports from that country. By 1937, United States imports of cotton from Peru had declined to 550 bales, and 1938 statistics of Peruvian cotton exports do not include figures for sales to the United States. Imports of long staple cotton from Peru and Egypt have been largely replaced by production in the United States, but, at the same time, foreign markets for United States long staple cotton have declined. Insofar as the tariff on imports created an increased demand for the domestic product, and thus reduced sales to foreign producers, additional outlets were made available for cotton from Peru and Egypt. The United States export subsidy on cotton also exerted some influence in international markets, but the increase in world cotton prices late in 1939 led to a gradual abandonment of the subsidy.

Zinc and Lead

Mexico and Peru are the only Latin American countries exporting zinc. Mexico's production and export are much more significant than Peru's, but the United States is the world's leading producer. Normally only a small part of United States consumption is imported and, prior to 1929, this country had an export surplus. In more recent years the United States has been a net importer of zinc, a large part of the imports coming in the form of ore free-in-bond for smelting and reexport, or ore upon which a drawback is paid when exported in the form of zinc products. Import duties on zinc are one and one-half cents per pound on ore and one and three-fourths cents per pound on metal. These rates were lowered by 20 per cent in a trade agreement with Canada in 1939, but were still equivalent to 62 per cent and 46 per cent ad valorem. The zinc mining and smelting industry in the United States has been losing its international position not only because its export balances have been declining but also because the domestic price has been approaching the London price, plus the duty. Removal of duties might conceivably place portions of the domestic industry at a competitive disadvantage, thereby increasing imports from Mexico and Peru.[40]

[40] Constant Southworth, *op. cit.*, p. 181.

A similar situation exists in respect to lead, small quantities of which are imported by the United States, although this country is the world's largest producer. The United States duties of one and one-half cents per pound on ore and two and one-eighth cents per pound on metal were equal in 1938 to 37 per cent and 85 per cent ad valorem.[41] Removal of duties would probably result in a significant increase in lead imports from Mexico and Peru

Corn

The United States imports very little foreign corn and only then in cases of domestic shortage due to poor climatic conditions. Argentina is the principal corn-exporting nation of the world, and, in years when United States surpluses were below average, certain types of Argentine corn could enter this country. Such imports would be used largely by poultry growers and corn-products manufacturers, but only in cases of extreme shortage would such corn reach the corn-consuming regions of the interior of the United States. Production of corn in the United States generally amounts to about 2,500 million bushels annually and, except during the period 1935–1937, imports have not exceeded 5 million bushels any year since 1923. The United States levies an import duty on corn of 25 cents per bushel of 56 pounds.[42]

Vegetables and Fruits

Relatively small quantities of winter vegetables are imported by the United States from Mexico. Several of them enter at high rates of duty, despite the fact that their importation comes at a season of the year which does not offer direct competition to domestic producers, and in quantities which constitute only a small proportion of domestic production. Cuba, Chile, and Argentina might also provide winter vegetables in the United States market in the absence of duties. Undoubtedly some regions in this country, where vegetables are produced for the winter market at relatively high costs, would feel the competition from such imports if duties were removed.

[41] *Ibid.*, p. 182.

[42] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, pp. 133–138.

Import duties on fresh fruits are lower in general than those on fresh vegetables, but existing rates probably do restrict trade from Mexico and Argentina.

Ratio of Dutiable to Total Imports by Countries

The ratio of dutiable to total imports by countries shows the East Coast countries far in excess of the average for the area as a whole.[48] Nearly three-fourths of United States imports from Argentina is dutiable, and nine-tenths of the total purchases from Paraguay and Uruguay is subjected to charges.

Approximately nine-tenths of total imports from Brazil enters without duty. This ratio is explained, of course, by the free entry of coffee in the United States markets.

One-fifth of the import trade with Ecuador and Peru is subject to duties, whereas the ratios for Chile and Bolivia are one-fifth and three-fifths, respectively.

Of the Caribbean countries, Cuba and Venezuela have a high proportion of dutiable to total, accounted for by petroleum and sugar. Approximately two-fifths of imports from the Dominican Republic is dutiable, almost one-fourth from Mexico, and one-sixth from Haiti. Duties applied on imports from other countries in this group are on a small part of total purchases from each.

Possible Effects of Tariff Removal

In accordance with existing international commercial agreements, changes in United States import duties must be extended to nations beyond the Western Hemisphere. It has been suggested, however, that, in the interest of Pan American solidarity, United States commercial policy should be so modified as to confine tariff removal only to Latin American nations.

Argentina might profit from removal of import duties now levied against some of her important export products. Flaxseed, which is in the commodity group having the third highest ratio of dutiable imports to total of the group, amounted to 13 per cent of the total value

[48] See Appendix, Table 36, p. 428.

of Argentine exports in 1938. United States production is only 6 per cent of the world total and this country is one of the world's largest importers.[44] Argentina's share in the total United States imports of this commodity in 1938 was over 90 per cent. Wool, which accounted for 11 per cent of the value of total Argentine exports in 1938, would probably find larger markets in this country with a removal of duties, as would canned corn beef. Exports of Argentine corn might increase in certain years, depending almost entirely on the effect of unfavorable weather conditions upon the crop in this country. Imports of wheat from Argentina would result from a removal of import duties only under purely artificial circumstances, such as governmental support of domestic prices or the necessity of disposal of surpluses at "bargain prices." Relaxation of the sanitary embargo against beef from Argentina would make it possible for substantial amounts of chilled and frozen beef to be imported from that source. Removal of duties on cattle hides, one-half the United States imports of which comes from Argentina, would undoubtedly increase sales in this market. Although substitutes are available for quebracho extract used in the tanning industry, removal of the 15 per cent ad valorem duty might increase sales.

Uruguay would benefit by removal of import duties on flaxseed, canned meats, and wool. Wool made up 44 per cent of the value of Uruguay's exports in 1938.

The only major Chilean export which could be expected to assume new stature as a result of removal of restrictions would be copper. Increases in exports of this item would probably be small, however, since United States imports are mostly for refining in bond and therefore enter free of tax.

Peru would probably benefit to some extent if the duty on long staple cotton, a commodity which accounted for almost one-fifth of the total value of exports in 1938, were removed. Zinc and lead sales might also increase, but increased exports of copper would probably be negligible. Peru exports some sugar, that commodity accounting for less than one-tenth of total value of exports in 1938. Removal of quota regulations and the duty would no doubt increase shipments to this country.

[44] Data on share of commodities in export trade as discussed in the following paragraphs taken from U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1, 8, 9, 17, 18, 19.

Complete removal of United States import duties would not bring significant gains to Brazil, since almost nine-tenths of United States imports from that source was free of duty in 1938. Increases in exports of manganese ore, canned corn beef, and possibly some types of cotton might result from free trade in these items.

Venezuela and Colombia would no doubt welcome unrestricted petroleum shipments to the United States, but, inasmuch as this country normally carries on an extensive export business in petroleum, increases in imports would probably be negligible.

Removal of duties on lead would be of benefit to Mexico, that commodity amounting to almost one-sixth of the total value of Mexican exports in 1938. The decline in the United States export surplus of zinc since 1929, and the resulting import balance after 1934, suggests that a removal of the import duty on this commodity, which made up slightly more than one-tenth of the total value of Mexican exports in 1938, would increase Mexican sales in the markets of this country. Sales of live cattle, which accounted for only one per cent of the total value of exports from Mexico in 1938, would probably increase if tariffs were removed. Trade in petroleum and copper might increase slightly with removal of restrictions.

Cuba would undoubtedly increase her sales of sugar in the United States if the duty and quota restrictions were eliminated. Sugar, raw and refined, amounted to 70 per cent of the total value of exports from that country in 1938. Certain types of Cuban tobaccos would also find increased markets in the United States.

The Dominican Republic would also expand its sugar sales in the United States with the removal of restrictions. Sugar accounted for three-fifths of the total value of that country's exports, 14 per cent of which goes to the United States.

Removal of the duties on imports from Latin America would probably injure certain producers in the United States. Tariffs, stripped of all their complicated classifications and verbiage, and removed from the heat of emotional debate, are essentially discriminatory in that they allocate economic resources by decree. To remove them is also discriminatory in that protected producers are forced, also by decree, to withstand competition regardless of its source. They view the removal of artificial stimulus as discriminating against them unless the protection granted has enabled them to attain a stage of economic maturity

capable of withstanding competition. There is no such thing as painless tariff removal, just as there is no such thing as painless tariff imposition. In practically all the commodities and industries mentioned above, each case of possible benefit to Latin American producers would have its corresponding case of loss to some producers in the United States.

Specific conclusions in respect to tariff changes are hazardous at best. Many variable factors inevitably force their way into the problem. No one can accurately foresee how consumption patterns may change as the result of rearrangement of economic forces. The indirect influence on export industry as a result of a nation's abandonment of its own import restrictions cannot be accurately predicted. New techniques of production and newly discovered resources, which change customary sources of supply, are developments which make prediction difficult. The actual effect of a tariff upon production and consumption is difficult to determine, since no method has yet been devised to determine just what quantities of goods would be imported in the absence of tariffs. The comparison of the effect of one set of rates with that of another is difficult, since the share of domestic consumption already provided by home production may be so great that any reduction in rates is meaningless.

Conclusion

The tariff structure of the United States, as it is applied to Latin America, emphasizes again the complementary and competitive aspects of the economies of the two areas. Reduction or removal of some of the rates, however, would undoubtedly pave the way for greater economic collaboration in inter-American affairs. There is no magic by which either the imposition or removal of an import duty can change the basic economic resources involved in producing commodities which enter international trade. The imposition of a duty may encourage and protect domestic industry where it could not otherwise be established, but such action does not completely alter the resources which enable another nation to produce similar commodities at lower costs. Likewise, removal of import duties in a general tariff system will not, in itself, pave the way for an expansion of commercial relations between any two given areas. Even after removal of duties, competitive commodities will still be competitive commodities in international trade.

No nation will build a significant import trade in commodities which she can economically produce on an export basis. Nations whose chief exports are competitive with the exports of the nations with which they desire to trade cannot expect a removal of tariff barriers to offset such similarities in production. Removal of duties on products that are not naturally competitive offers some benefit to other nations, and in commodities of this type removal or reduction of United States tariffs might result in benefit to some Latin American nations.

Chapter 10

THE RECIPROCAL TRADE AGREEMENTS PROGRAM IN LATIN AMERICAN TRADE

THE RECIPROCAL Trade Agreements Program has modified the application of United States tariff rates on certain commodities by means of bilateral trade agreements which have been signed with Latin American nations. The purpose of this chapter is to analyze the nature and significance of these agreements. The background and essential features of the basic policy upon which they have been negotiated serve as a point of departure.

The Trade Agreements Act

The Trade Agreements Act, an amendment to the Tariff Act of 1930, came from a background of declining world trade.[1] The depression of 1929, the Hawley-Smoot Bill of 1930, and the collapse of international financial machinery were among the many inter-related factors which led to a state of chaos and uncertainty in international markets. World trade was characterized by an intensive upsurge in nationalism and self-sufficiency, and the export trade of the United States had declined by 70 per cent from 1929 to 1932.[2]

The Congress of the United States, viewing the resultant dislocations in the domestic economy, reasoned that any expansion in world trade could serve as a generating force in domestic recovery. The trade agreements program is an expression of the principle that economic activity within the boundaries of a trading nation is influenced by economic

[1] 73d Congress, *Public Law* 316.

[2] 76th Congress, 3rd Session, *Hearing before Committee on Finance, Senate, on H. J. Res. 407*, p. 9.

conditions in the world at large. Part III, Section 350(*a*), of the Act states its purpose as follows:

> For the purpose of expanding foreign markets for the products of the United States (as a means of assisting in the present emergency in restoring the American standard of living, in overcoming domestic unemployment and the present economic depression, in increasing the purchasing power of the American public, and in establishing and maintaining a better relationship among various branches of American agriculture, industry, mining, and commerce) by regulating the admission of foreign goods into the United States in accordance with the characteristics and needs of various branches of American production so that foreign markets will be made available to those branches of American production which require and are capable of developing such outlets by affording corresponding market opportunities for foreign products in the United States, the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means hereinafter specified, is authorized from time to time . . .
>
> (1) To enter into foreign trade agreements. . . .

The Trade Agreements Program is essentially one of tariff bargaining in which the President is empowered to negotiate agreements on a reciprocal basis with other nations. In the negotiation of such pacts, he offers concessions in the form of lowering United States import duties in return for privileges granted by foreign countries in the application of their import restrictions to United States products.

The powers granted the President in negotiating trade agreements are not unlimited, however. In the first place, the maximum reduction in United States tariff rates offered to any country is 50 per cent of the existing rate of duty at the time the Trade Agreements Act was passed (1930 Tariff Act rates). A further limitation prevents the President from transferring any article from the dutiable list to the free list, or vice versa. Thus the tariff bargaining is essentially a procedure of bargaining within the framework of an established tariff system and rate structure. A maximum has been placed on reductions, and decisions as to whether articles shall be dutiable or not are not a matter of negotiation. Power is granted, however, to "freeze" a commodity in

its existing status; that is, the President may guarantee that a commodity now on the free list shall remain free for the duration of the pact or that a commodity on the dutiable list shall remain dutiable at the rate existing at the time negotiations are concluded.

Agreements signed under the Act are subject to termination upon notice to the foreign government concerned at the end of three years and, if not terminated then, shall be subject to termination upon six months' notice. Nothing in the Act gives the President authority to cancel or reduce any indebtedness of any foreign country to the United States. Before an agreement is signed, public notice of intention to negotiate must be given, in order that any interested person may present his views on the matters involved in the agreement. It is further provided that, prior to signing an agreement, the President shall seek information and advice from the United States Tariff Commission, the Departments of State, Agriculture, and Commerce.

Perhaps the most significant provision of the Trade Agreements Act, and most certainly the one that contains the basic foundation of the present international commercial policy of the United States, is that by which a reduced duty granted to a country with which an agreement is negotiated is extended to all other countries in the world not discriminating against the commerce of the United States. That is, when the United States offers concessions in the form of lower import duties to a country signing an agreement, these same lowered duties are automatically extended to any country which supplies the United States with the commodities in question. A clause stipulating such treatment is known as the unconditional most-favored-nation clause.

The use of the unconditional most-favored-nation clause is evidence of the acceptance of the principle of equality of treatment in international commercial affairs. Acceptance of this principle in negotiating trade agreements means that concessions granted by the United States are not to be reserved for the exclusive benefit of the nation signing an agreement but, rather, are to be extended to all nations participating in trade with the United States. From the standpoint of world trade in general, the significance of such treatment lies in the fact that application of benefits from tariff reduction only to the signatory would constitute discrimination against the export trade of other nations. In practice, of course, concessions extended to a signatory nation are of

more significance than the benefit other nations receive. The commodities upon which tariff reductions are made are those in which the signatory is a principal supplier of the United States. In addition to the use of the "principal supplier formula," concessions are sometimes made so specific as to limit benefits principally to the signatory nation. On the other hand, the extension of reductions to other nations, no matter how small the proportion of United States imports they may supply, is concrete evidence of the desire of this country to enlarge the volume of world trade in which all nations may share.

The unconditional most-favored-nation clause in the agreements guarantees that the signatories extend to each other the privileges which either has granted, or may grant, to a third country, and that any new benefits granted by either party will be extended to all other countries trading on the most-favored-nation basis. Any third nation which receives the benefit of a concession which the United States has granted to a country in an agreement must extend to the United States the same type of treatment offered by the third nation to the commerce of other nations. One exception to the principle of unconditional most-favored-nation treatment is specifically authorized in the Act, whereby the system of preferences accorded Cuba in a treaty with the United States in 1902 is not to be rendered inapplicable by the administration of the program.[3] As subsequent discussion will show, some exceptions have also been made in cases in which the United States does not demand privileges which have been extended to contiguous countries.

Latin American Agreements

At the end of 1942, fifteen trade agreements had been signed with Latin American countries. Cuba was the first to sign in August of 1934, followed by Brazil, Haiti, Colombia, and Honduras in 1935. In 1936, negotiations were completed with Nicaragua, Guatemala, and Costa Rica. El Salvador was the sole Latin American nation to sign in 1937, and Ecuador the only signatory in 1938. Venezuela signed in 1939, Argentina in 1941, Peru, Uruguay, and Mexico in 1942.[4]

[3] 73d Congress, Section 350(*b*), *Public Law* 316.

[4] "Announcements under Reciprocal Trade Agreements Act," *Foreign Commerce Weekly*, 10:28, January 16, 1943.

Because of the financial difficulties of the Nicaraguan government, the tariff concessions included in the agreement with that country were terminated on March 10, 1938. Other provisions of the agreement are in full force, however, and reinstatement of the tariff provisions is contemplated when conditions permit.[5]

Ecuador, also in a difficult financial situation, was faced with the necessity of increasing customs charges on dutiable imports from all sources. In an exchange of notes with Ecuador, the United States agreed not to invoke the pertinent provisions of the trade agreement concerning reduced rates for United States exports. Ecuador agreed to restore reductions when her financial position became improved.[6]

As measured by the number of pacts signed, it is apparent that the greatest progress of the Trade Agreements Program in Latin America has been achieved in Central America and in the West Indies. The Dominican Republic and Panama are the only Caribbean countries with which agreements have not been concluded or negotiations announced. Agreements with countries of the Caribbean area make no noticeable change in the nature of United States imports inasmuch as our purchases are largely tropical food products of a complementary type. With the exception of Cuba and Venezuela, most imports upon which concessions have been made consist of duty-free products, and in many cases concessions consist of binding such commodities on the free list. Special analysis of such agreements is not particularly significant in a discussion of tariff bargaining.

Pacts with Cuba, Venezuela, Argentina, and Peru, however, are chosen for special analysis. Cuba is selected because of the importance of sugar in trade with the United States and also because of the special footing upon which commercial relations stand between the two countries. Venezuela is selected as an example of exception to the general rule of complementary trade with tropical America. Argentina's agreement merits analysis because of the competitive nature of her economy and her position as the leading trading nation of Latin America. Peru is selected as a representative of the West Coast section, traditionally divided in economic allegiance between North America and Europe.

[5] William Raleigh, "The Reciprocal Trade Agreements Program in Latin America," *Commercial Pan America*, 11:8, January-February, 1942.

[6] U. S. Department of State, *Bulletin*, March 27, 1942, p. 221.

Cuban Pacts

Commercial relations between Cuba and the United States have been implemented by special treatment since the signing of a Reciprocity Convention between the two countries in 1902. Under the provisions of this treaty, the United States granted Cuba exclusive reductions of 20 per cent below the rates on dutiable commodities of like nature from other countries. It was further agreed that the United States would not impose duties in the future on Cuban products then entering this country duty free. The preference was of importance chiefly on sugar and tobacco, whereas imports of copper ore, manganese ore, coconuts, bananas, and other fruits and some other products were the principal duty-free items.[7] Under the trade agreement of 1934, the United States continued the basic minimum preference. Duties were reduced on some products, and larger preferences were granted on others. Cuban concessions to the United States included preferential treatment on many specified tariff items, the preference ranging from one-fifth to three-fifths of minimum rates of duty. With the exception of Cuban sugar and tobacco, each country agreed that no quantitative restrictions were to be imposed on articles included in the agreement. Cuban grapefruit, avocados, and winter vegetables were permitted to enter the United States at specially reduced rates during certain seasons. Cuba thus maintained her preferential standing.

A supplementary trade agreement became effective in December, 1939. This agreement provided for restoration of the former reduced tariff of 0.9 cent per pound on Cuban sugar, which had reverted to the 1934 level of one and one-half cents per pound when quota provisions of the Sugar Act were suspended by President Roosevelt in September, 1939. This supplementary pact also granted concessions on Cuban cigars and cigar tobacco, with certain quantitative restrictions on cigar-filler and scrap tobacco.[8]

A second supplementary trade agreement was signed with Cuba in December, 1941, supplementing and amending both the original pact

[7] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 18, p. 65.

[8] David H. Popper, "Six Years of American Tariff Bargaining," *Foreign Policy Reports*, 16:35, April 15, 1940.

of 1934 and the first supplementary agreement of 1939.[9] This recent agreement continues the preferential arrangements and, since nearly all dutiable products had already been included in previous agreements, relates chiefly to further reductions and other matters. The new agreement makes changes in general provisions relating to taxes on imports to compensate for internal taxes on domestic products, and in provisions concerning quantitative restrictions, exchange control, sanitary regulations, and public security. Cuban concessions include reductions on thirty products imported from the United States and binding at present rates on eight. The reduced rates in the present agreement are lower than those formerly established. Chief products on which the United States grants concessions are sugar and molasses, tobacco and cigars, fresh, chilled, or frozen beef and veal, fruits, and vegetables. The tariff rate on Cuban sugar is established at 0.75 cent per pound (a reduction from 0.9 cent as provided in the original agreement), and the United States agrees to safeguard the position of Cuba as a supplier in the United States market. It is agreed that measures for the protection of either country's essential interests in time of war or national emergency, sanitary protection, and importation or exportation of gold and silver fall outside the scope of the agreement. In regard to exchange control, the agreement provides for unconditional most-favored-nation treatment.

Probably the most significant aspect of the agreements signed with Cuba is the reduction of rates on sugar which customarily amounts to about three-fourths of the total value of United States imports from Cuba. It was hoped that reductions in sugar tariffs in the original agreement marked a reversal in the upward trend of rates since 1913, but reductions were circumscribed by the sugar quota system established by the United States in 1934. Supplemental agreements granted yet further tariff reductions on sugar, but the 1941 agreement still applied quota limitations to imports at reduced rates.

Limited quotas were also applied to imports of tobacco at reduced rates in the original agreement. The tobacco quota was terminated later, and further reductions granted in the supplemental agreements, which are concluded periodically.

[9] "Second Supplementary Trade Agreement with Cuba," *Foreign Commerce Weekly*, 6:10, January 3, 1942.

Venezuelan Pact

Venezuela, whose chief export product is petroleum, signed a trade agreement with the United States in 1939.[10] Reductions in duty were granted by Venezuela on thirty-five products, including wheat flour, hog lard, lumber, metal furniture, and parts for agricultural machinery. These commodities represented one-tenth of United States exports to that country in 1938, and reductions in duty ranged from 2.5 per cent to 62 per cent of the existing rates. On sixty-one other items, aggregating over one-fourth of Venezuelan purchases from the United States, Venezuela agreed to stabilize rates at their existing levels. Concessions granted by the United States included a reduction of one-half in the import excise tax on petroleum (subject to annual quota) and the guarantee of continued free entry of crude petroleum and fuel oil for use of vessels. Reductions of a like amount were granted on two products, the existing duty was bound against increase on one, and existing duty-free entry was bound against change on nine products, most of which are tropical commodities not produced in the United States. In 1938, the products covered in the agreement accounted for almost nine-tenths of the value of United States imports from Venezuela, petroleum alone accounting for four-fifths.

The Venezuelan agreement is of interest primarily because of the significance of petroleum in that nation's export trade. Normally the United States is an exporter of this commodity, but crude oil is also this country's major import from Venezuela. Since the imposition of the import excise tax on petroleum in June, 1932, the position of the United States as a market for Venezuelan oil has declined. The reduction in this tax, as provided in the agreement, is in some measure a compensation for the added charge, and there is evidence that United States imports of petroleum have increased since the agreement became effective.[11] Nevertheless, the quota limitation is evidence of the obstacles involved in making concessions on a competitive product.

[10] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, pp. 12–13.

[11] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:307, April–May–June, 1941.

Argentine Pact

As has been pointed out in preceding chapters, the commercial relations between the United States and Argentina have always been influenced by the competitive nature of their economies. Both these temperate zone countries have competed in international markets for sale of export products, but, at the same time, there has been substantial trade between the two countries. Argentina has purchased motor vehicles and parts, iron and steel products, agricultural, industrial, and electric machinery, business machines, and other products. The United States has been an important market for Argentine flaxseed, cattle hides, wool, canned beef, quebracho extract, and other Argentine commodities. Despite this interchange, however, the share of the United States in Argentine trade has not been so large as her relative share in the commerce of other Latin American nations.

Trading relations between Argentina and the United States have been disturbed by factors other than the competitive nature of their economies. Argentina has resented the embargo imposed by the United States on meat imports, and the Tariff Act of 1930 added to the resentment by increasing duties on several Argentine products.[12] In addition, the impact of depression upon the Argentine economy made changes in her commercial policy necessary. Under normal trading conditions, Argentina could balance her unfavorable merchandise account with the United States through foreign exchange proceeds from sales to other countries. This multilateral type of trading arrangement collapsed with the decline of overseas markets and, as a result, Argentina adopted exchange control in 1931 and a system of import permits in 1938.[13] These measures were aimed, primarily, at allocating the limited supply of foreign exchange made available as a result of disruption of normal trade channels. Such a policy operated to the disadvantage of the United States, since the allocation of foreign exchange favored those countries which bought more from Argentina than they sold to her. Discriminatory quotas were also applied to imports from the United States, and a series of bilateral agreements, blocking Argentine ex-

[12] J. C. de Wilde and Bryce Wood, "U. S. Trade Ties with Argentina," *Foreign Policy Reports*, 17:227, December 1, 1941.

[13] William Raleigh, *op. cit.*, p. 5.

change formerly available for purchase of United States products, added to the strains already imposed on trade between the two countries. The United States was faced with the prospect of increasing her purchases from Argentina or suffering a severe decline in her exports to that country. In the fall of 1940 the trade relations between the two countries became still further strained. The curtailment of European sources of supply, because of war, forced Argentina to rely, to a greater extent than usual, on imports from the United States, whereas Argentine exports to this country increased much more slowly. As a result, the deficit in Argentina's balance of payments with the United States had to be met by shipment of gold. Government authorities resolved again to reduce purchases from the United States, and exchange permits for imports from this country were restricted.

The above summary of United States-Argentina trading relations suggests that, even prior to World War II, the prospect of a trade agreement between the two countries had attractive features, and in August, 1939, announcement was made of intention to negotiate. Hearings on the proposed concessions opened on October 16, 1939, and negotiations were formally opened several weeks later.[14] This first formal attempt at an agreement resulted in failure, however, and negotiations were terminated in January 8, 1940.

The United States government seemed unwilling to run the risk of antagonizing those groups in this country who were opposed to the granting of concessions on agricultural products from Argentina and, in the negotiations, insisted upon the use of import quotas in connection with tariff concessions. The suggested quotas on important Argentine exports were not considered large enough by Argentina to bring trade between the two countries closer to balance or to compensate for renouncing, in part, its bilateral commercial practices, as asked by the United States. The public hearings in connection with the proposed negotiations were not without political implications, since the trade agreements program was to be considered for renewal by Congress in January, 1940.[15] Negotiations were hastily concluded, and the explanatory statements offered by both governments seemed to confirm

[14] H. P. Macgowan, "The Trade Agreement with Argentina," *Foreign Commerce Weekly*, 5:8, October 25, 1941.

[15] Percy W. Bidwell, "El Dorado Beckons," *Foreign Affairs*, 18:330, January, 1940.

the impossibility of evolving an adequate compromise between their divergent commercial policies. Negotiations with Uruguay, whose trading relations with the United States are comparable with Argentina's, were also terminated at the same time.[16]

In 1941 Argentina and the United States were no longer fearful that their markets would be flooded by imports from the other. Each saw her need for the products of the other, and negotiations proceeded rapidly. The agreement was formally signed at Buenos Aires, October 14.[17]

The duty concessions made by Argentina cover a long list of American industrial and agricultural products. Duties are reduced on thirty-nine tariff items, and present rates are bound against increase, for the term of the agreement, on eighty-eight items. In 1940, exports of items upon which reductions are granted accounted for 18 per cent of total United States sales in Argentina, whereas the share of items upon which rates are bound amounted to 12 per cent of 1940 exports to Argentina. These reductions are of three types: (1) those which apply in entirety on the effective date of the agreement; (2) those which become operative in two stages, part, immediately, and part, when the second concession stage comes in force; (3) those which do not apply until the second concession stage becomes operative. For reductions of the third type, present duty rates are bound pending the application of concessions in the second stage. Concessions in Stage II become effective when Argentina's customs receipts from import duties exceed 270 million paper pesos in any calendar year. This figure approximates average annual customs receipts in the ten-year period 1931-1940.[18]

Reductions in twelve items become effective immediately. These include reductions varying from one-third to one-half on prunes, raisins, fresh apples, pears and grapes, and are effective during the winter season in Argentina. Other items in this group include slight reductions on light inexpensive passenger cars and somewhat larger concessions on medium-weight inexpensive cars. Reductions on rubber hose, Kraft liner board, raw motion picture film, canned salmon and mackerel,

[16] David H. Popper, *op. cit.*, p. 37.

[17] For text of agreement including related notes, see U. S. Department of State, *Press Release 494*, October 14, 1941. For analysis of provisions, see U. S. Department of State, *Press Release 495*, October 14, 1941.

[18] H. P. Macgowan, *loc. cit.*

and certain types of sardines are also items upon which concessions become effective immediately. The concessions granted by Argentina to become effective at once accounted for slightly less than one-tenth of total United States exports to Argentina in 1940.

The remainder of rate reductions, however, depends, in part or in whole, upon Argentine customs receipts, a condition which may not be met as long as Argentine import trade is curtailed by war. Included in the reductions which become effective, in part or in whole, when the second concession stage becomes operative are truck, delivery car and bus chassis, certain automobile replacement parts, large radio sets, including phonograph combinations, powerful radio tubes, automatic refrigerator parts, miscellaneous electric equipment, fluorescent bulbs and lighting fixtures, light industrial machinery, lumber (Douglas fir, spruce, and southern pine), composition boards, paper products, motion picture negatives, and vulcanized fiber. The items in this group accounted for one-tenth of United States exports to Argentina in 1940.

Among the more important items upon which present rates have been bound by Argentina are leaf tobacco and cigarettes, small radio sets, expensive passenger automobiles, other automobile parts, radio parts, automatic refrigerators, small electric motors, agricultural machinery, pumps and oil burners, typewriters, calculating machines, cash registers, enamels and varnishes, fountain pens, chewing gum, razor blades, and photographic film.

Commodities affected by concessions which the United States grants to Argentina made up nine-tenths of total imports from Argentina in 1938 and 1939 and three-fourths in 1940. The proportion declined in 1940, largely because the United States purchased unusually large quantities of finer grade wools, on which no concession is made in the agreement. Rates are reduced on commodities which made up approximately two-thirds of imports in 1938 and 1939 and slightly less than one-half in 1940. Concessions granted by the United States are divided into two lists: Schedule II, which includes those products of which Argentina is normally the principal supplier, and Schedule III, made up of products, the chief supplies of which the United States ordinarily obtains from countries other than Argentina. Supplies from these countries have been curtailed because of World War II, and concessions listed in Schedule III may be withdrawn by the United States on six months' notice after the termination of the war.

The greater part of imports benefited by the agreement are those in Schedule II. One of the most important concessions made in this group is the reduction on flaxseed, normally the largest import item from Argentina, but surpassed by wool in 1940. This import duty has a long and varied career, moving from 25 cents per bushel in the early 1900's, reduced to 20 cents in the Tariff Act of 1913, then moving up in the 20's to 30 cents, 40 cents, and 56 cents, finally reaching 65 cents in 1930.[19] The agreement reduces this rate to 32.5 cents, but the reduction may be terminated thirty days after the President of the United States, following consultation with Argentina, proclaims the present "abnormal" situation to have passed. This "abnormal" situation refers primarily to the rapid increase in freight charges on shipments from Argentina during the war. When this situation has passed, the duty increases to 50 cents per bushel. The duty on canned meats (chiefly corned beef) has been reduced from 6 cents to 3 cents per pound, although a minimum ad valorem rate of 20 per cent is retained. Quebracho extract is given a new rate of 7.5 per cent ad valorem, a reduction of one-half. Rates on cattle hides, which were formerly dutiable at 10 per cent ad valorem, and casein, which has been dutiable at 5.5 cents per pound, are reduced by one-half.

The United States has also agreed to the maximum rate reduction on grapes and plums during the winter and spring months when such items are not competitive with home production. Concessions on wool apply primarily to carpet wools, which are already duty free, and which made up over four-fifths of all imports of wool from Argentina in the period of 1935 to 1940. The concession to Argentina binds this free duty status. Reductions are made on certain types of dutiable wools, production of which in the United States is less than one per cent of domestic wool output. Duties are also reduced on imports of meat extracts, tallow, oleo oil and stearin, fresh asparagus (effective only for a specified period in winter), and other products of lesser importance.

Concessions of importance in Schedule III (those subject to modification after termination of war) are on Italian type cheeses, wines and liqueurs, macaroni and similar products, sunflower oil, certain medicinal preparations, anchovies, preserved tomatoes, dressed furs, beryllium oxide, and carbonate.

[19] Louis C. Nolan, "Agriculture in the Argentine Trade Agreement," *Foreign Agriculture*, 5:445–468, November, 1941.

Tariff rates were bound at present levels on maté, glycerin, certain types of mica, fresh pears, and alfalfa seed. Bound on the free list are such items as carpet wool, hides and skins (other than cattle hides and skins), sheep, lamb, and goat casings, certain fur skins, tankage for fertilizer, bone meal, quebracho wood, and crude maté.

The general provisions of the agreement are of particular significance and, in a sense, constitute the real core of the attempt to reconcile the commercial policies of the two nations. Probably the most important provision of all is that by which Argentina pledges to grant most-favored-nation treatment to the United States, assuring that any tariff concession accorded a third country shall be extended automatically to the United States. Important exceptions are made to this principle, however, in three respects: (1) So long as proceeds of Argentine exports to the United Kingdom are blocked by that country, the United States will not invoke the most-favored-nation provisions of the agreement concerning Argentine exchange or quota treatment of imports from the "sterling area"; (2) similar exceptions are made concerning exchange and quota arrangements with contiguous countries and Peru; (3) Argentina is relieved from the obligation of generalizing to the United States duty reductions made to contiguous countries in commercial agreements, so long as their benefits are not extended to any other non-contiguous country, and providing they conform to a formula recommended by the Inter-American Financial and Economic Advisory Committee. The exceptions regarding exchange and quota arrangements are limited to the period of the war. Assurances are given, however, that Argentina will allot exchange, at least in limited amounts, for articles upon which tariff concessions have been given.

The agreement also contains a provision not included in previous trade agreements signed under the Trade Agreements Program, whereby a mixed commission consisting of representatives of each government shall serve as a consulting body on matters pertaining to the operation of the agreement.[20]

Under present conditions of international trade, it is very difficult to evaluate the agreement between the United States and Argentina. As has been suggested above, the agreement stands as evidence that both governments are in closer accord on commercial policy than at any

[20] U. S. Department of State, *Bulletin*, April 25, 1942, p. 373. Subsequent agreements with Peru and Uruguay make similar provision.

time in recent years. Its economic effect in the near future will depend, however, upon the collaboration of the two countries in such matters as shipping and priorities. International trade in wartime is motivated by military necessity, and changes in tariff rates are of little significance in altering the flow of goods needed for prosecution of war. Liberal concessions in import duties do not open shipping lanes that are blockaded or prevent ship sinkings by marauding submarines. On the other hand, the agreement does establish a basis for an exchange of goods between Argentina and the United States which might conceivably be expanded in the post-war world. The right to withdraw or modify concessions when more normal trade has been restored could be regarded as an indication of uncertainty concerning improved relations in the future. On the contrary the present agreement could point the way to still more substantial concessions.[21]

Peruvian Pact

Peru signed an agreement with the United States in May, 1942.[22] Concessions granted by Peru apply to products which amounted to one-fourth of total Peruvian imports from the United States in 1940. The principal products upon which Peru grants reductions are automobiles and trucks, parts for automobiles and trucks, typewriters and calculating machines, certain dried fruits, canned fruits and vegetables, prepared oats, and fresh apples, pears, and plums. Peruvian tariffs were bound against increase on agricultural and mining machinery, wheat flour, sewing machines, plate glass, certain pharmaceutical specialties, and moving picture films.

Concessions granted by the United States covered items which accounted for one-fourth of total imports from Peru in 1940. The principal commodities upon which reductions were made include sugar, long staple cotton, hair of the alpaca, llama, and vicuña, bismuth, and cacao leaves. The agreement reduced the duty on sugar by one-half, although the new rate is still in excess of the rate applicable to Cuban sugar. The duty on long staple cotton was also reduced by one-half, although

[21] Clarence H. Haring, *Argentina and the United States*, pp. 71–73.

[22] See U. S. Department of State, *Press Release* 206, May 7, 1942, for analysis of provisions and benefits, and *Press Release* 207 of the same day for text of agreement.

the agreement does not affect the total quantity of long staple cotton permitted under the cotton quota. Various rates of duty reduced in other trade agreements were bound against increase, and certain commodities not previously bound on the free list in previous agreements were given that assurance in the pact with Peru.

General provisions in the Peruvian agreement include unconditional most-favored-nation treatment. In an exchange of notes accompanying the agreement, however, the United States agrees not to invoke this treatment in respect to tariff preferences which Peru may accord to a contiguous country, if such preferences are in accord with a formula recommended by the Inter-American Financial and Economic Advisory Committee. The agreement does not apply to measures imposed by the United States on imports of coffee pursuant to the provisions of the Inter-American Coffee Agreement.

The agreement with Peru makes some adjustment in tariffs on important products in that country's exports to the United States. The leading United States import from Peru, unrefined copper, was not included in the negotiations, since it enters the United States market largely for refining and export and thus is not subject to the import excise tax. Sugar, the second import item in terms of value, has been sold in increasing amounts in this country in the past decade. Cotton imports from Peru, however, have been practically negligible. The concessions on this commodity illustrate again the difficulty in granting reductions on competitive products. The reduction, limited by quota, is probably to be explained as a result of the wartime demands for all types of materials. The agreement of the United States to waive most-favored-nation treatment in respect to Peru's arrangements with contiguous countries emphasizes the increased attention in Latin America to expansion of trade within the area.

Effect of Agreements

The extent to which trade agreements have influenced Pan American trade is exceedingly difficult to determine. The behavior of foreign trade has been influenced by many factors since the advent of the Trade Agreements Program. Administration of the Act from the very first has been forced to push its way through a cycle of fast-changing international events, including depression and war. Due allowance must

be made for the comparatively short period in which the program has been in effect and for the length of time each of the agreements has been in operation. Some have been in force since 1934, others scarcely long enough to allow any accurate appraisal. Comparisons between the trade carried on with agreement and non-agreement countries are of little value in estimating the effect of the program, since the various commodities involved are subjected to all types of shifts in demand and supply factors over a period of time, shifts which are typical of the dynamic nature of international competition. Widespread generalization of concessions, political instability, currency depreciation, foreign trade monopolies, and the whole host of trade controls and agreements associated with economic nationalism of recent years are other factors which make it difficult to isolate a planned program of tariff reduction in order to study its results.

An analysis of the trend of trade between Latin America and the United States since 1929, including agreement and non-agreement countries, is nevertheless rather enlightening. From 1929 to 1939, the relative importance of Latin American imports into the United States remained practically the same. The ratio of United States imports from Latin America to total imports varied only from 22 to 23 per cent. On the other hand, United States exports to Latin America during the same period showed greater fluctuations than did imports, the ratio of exports to Latin America to total exports varying from 12 per cent in 1932 to 18 per cent in 1939. During this entire period, the United States had an import balance of trade with Latin America, with the exception of the years 1938 and 1939.[28]

In the years from 1938 to 1940, United States exports to Latin America showed a greater increase than imports, a condition which is not particularly desirable for the traditionally debtor Latin American area. The existence of multilateral trading conditions throughout the world would permit Latin American nations to compensate for this situation by using foreign exchange acquired by sales beyond the Western Hemisphere, but such conditions have not prevailed in world trade of the past decade. The impact of the defense program in the United States, however, later followed by actual war, brought unusual demands for certain materials. In 1941, Latin American nations were able to counterbalance their increasing dependence upon the United States for

[28] William Raleigh, *op. cit.*, p. 17.

commodities formerly purchased elsewhere. Their ability to secure increasing amounts of dollar exchange has, however, not completely eased their trading relations with the United States. Priority regulations and limited shipping facilities have minimized translation of purchasing power into the actual receipt of goods.[24]

The foregoing discussion emphasizes the ever-changing pattern of international trade. Prior to the United States defense and war programs, it is reasonable to conclude that the trade agreements signed with Latin American countries materially influenced the course of trade with the United States. To the extent that United States exports increased in greater degree than imports, the Trade Agreements Program may be criticized for not reducing tariff rates to a degree sufficient to bring about the desired expansion in trade. The legal limit on rate reductions has precluded any basic change in the tariff structure, in many cases even the reduced rates being highly protective. Administration of the act has recognized that a tariff structure to which a country's economic organization has become adjusted over a period of years cannot be eliminated in less than a decade without serious dislocation. Many of the concessions are relatively insignificant, especially as restricted in their operation by various types of quotas or phrased in extremely specific terms.

Future of the Program

To a large extent the continuation of the Trade Agreements Program in Latin America depends upon the willingness of the United States to face the problems involved in the importation of competitive products. Because of abnormal conditions now prevailing, efforts to reestablish trade through reciprocal arrangements must await some future date for fullest realization.

It may very well be that in the future the commercial policy of the United States toward Latin America will rely still more on quotas and other types of commercial practices containing regional, if not bilateral, elements. Some of the existing agreements, particularly recent ones, have recognized the significance of arrangements made by Latin American nations with neighboring countries. In such cases, the United States has agreed to waive unconditional most-favored-nation treatment, allowing the extension of preferences to be confined only to the Latin

[24] *Ibid.*, pp. 17–19.

American area. The widespread generalization of concessions to all parts of the world may be subject to modification if an expansion of Pan American trade continues to be a vital factor in hemispheric cooperation. Systems of preferences for other features of international trade may also become a part of United States commercial policy.

Such possibilities in future commercial policy run counter to the underlying philosophy of the Trade Agreements Program as originally conceived. Even under such circumstances, however, it would appear desirable to retain the existing mechanism of negotiation. Quiet diplomatic representation is more desirable than openly declared commercial warfare in making adjustments to conflicts involved in international trade. It seems clear that a modification of existing policy in seeking the best arrangements possible in the future of Latin American trade with the United States can be based on progress already made with the program thus far. Certain it is that extensive interchange of goods and fair treatment are goals still worthy of achievement in our relations with the nations south of the Rio Grande. Whatever the pattern of future commercial arrangements, the pacts signed since 1934 have emphasized liberalization of relationships of the American nations with each other and with the rest of the world. This constitutes a sharp divergence from the former policy of extreme protectionism applied to the other Americas.

Conclusion

Coming as it did upon a world in which economic nationalism and exclusive bilateral commercial pacts were the order of the day, the Reciprocal Trade Agreements Program was a noteworthy step in international economic affairs. The United States, in advocating adherence to the principle of equality of treatment, took a stand against outright commercial warfare. The results of such action cannot be measured alone in the balance sheets of world trade.

The program undoubtedly has been a factor in influencing the course of Pan American trade, even though its effect has not brought fundamental changes in the economic life of the hemisphere. The limitations upon reductions of rates prevent any revolutionary change in the tariff structure of the United States and, as a step toward freeing trade, the program may be criticized as being only a mild beginning. Nevertheless, some discriminatory barriers have been lowered, and a scientific

approach to tariff adjustment has made its way into international commercial agreements.

The mere signing of agreements is not necessarily conclusive evidence of the success of the program. Nevertheless, the fact that negotiations have progressed from the early stage of dealing with countries from which the United States buys large quantities of non-competitive products to include nations whose products are competitive is concrete evidence of modification in this government's commercial policy toward Latin America.

The future of the program in Latin America depends upon the type of international trading mechanism prevailing in the post-war world. A world organization in which liberal trading principles and multilateral arrangements prevailed would point to an expansion of the program in its present form. A trading organization based on regional and preferential arrangements would call for a modification of the underlying principle of equality of treatment. In either event, the United States must face the problems involved in the importation of competitive products.

Chapter 11

NON-TARIFF ASPECTS OF UNITED STATES INTERNATIONAL COMMERCIAL POLICY

DISCUSSION IN the two preceding chapters has been confined almost exclusively to the tariff aspects of United States commercial policy as it relates to Latin America. There are, however, several other types of foreign trade control practiced by the United States, each of which has a bearing upon Pan American economic relations. It is the purpose of this chapter to analyze those controls.

Non-tariff devices in the commercial policy of the United States range from import restrictions of various types to control of exports. Quotas, excise taxes, and sanitary regulations are examples of import restrictions. Export licensing, priority allocations, and prohibition of sales to designated lists of purchasers are measures exercised on the export side of international trade. In addition to these, other governmental acts or regulations, not technically defined as instruments of commercial policy, influence the movement of goods in international trade. The Silver Purchase Program of the United States, for example, has brought repercussions in the foreign trade and domestic economy of at least one Latin American nation.

The emergencies of World War II brought changes in the application of some of these devices. Relaxation of quotas and an expansive program of purchasing are examples of a modification in policy. Such modifications will be examined in the following discussion, but their emergency characteristics should not be allowed to overshadow the importance of the original techniques as elements in the basic international commercial policy of the United States. Attention will be called first to import quotas, excise taxes, sanitary regulations, and the silver program. The remainder of the chapter will be devoted to measures associated with World War II. These include export control, freezing of foreign funds, purchasing agreements, price controls, and similar devices.

Import Quotas

United States import quotas are of relatively recent origin and are more limited in scope than those imposed by other trading nations.[1] This country has made use of this device only since 1933, but it has been estimated that by 1940 almost one-tenth of total imports entered the United States under official quotas.[2] Since that date, other commodities have been added to the list.

An import quota is, in essence, a definite quantitative limitation of imports permitted to enter a country. Such quantitative limitation may take various forms. A quota may be "absolute," in which case only specified quantities of the designated product may be imported during a selected period of time. Once the quota is filled, further imports are prohibited for the period of time set when the restriction was imposed. The distinction between control of this type and restriction by tariff rates should be carefully noted. Tariffs, as such, are indirect quantitative restrictions but do not prohibit entry as long as duties are paid. An absolute quota sets a definite physical limit on imports.

Most of the absolute quotas used by the United States have been imposed to support programs designed to bring higher prices for domestic products. Quotas on sugar, cotton, cotton wastes, wheat, and wheat flour are in this category. In contrast to these, the absolute quota on coffee has been imposed to aid in stabilizing the price of that crop for Latin American countries.

"Tariff" quotas differ from absolute in that the limitation applies only to quantities which may enter under preferential tariff treatment. Imports in excess of the quantitative limits are not prohibited; they are only denied favorable tariff treatment accorded amounts within the quota. Tariff quotas have been used to limit the effect of duty or tax concessions granted in trade agreements. The quotas on crude petroleum and fuel oil and cattle of a specified weight are examples of this type of arrangement.

Another type of quota arrangement is the "free entry" device. This form limits quantities which may enter duty free but places no restric-

[1] Percy W. Bidwell, *The Invisible Tariff*, p. 133.

[2] "United States Import Quotas," *Monthly Bulletin of the American Tariff League*, No. 146–147, May–June, 1941.

tion on additional amounts which may enter subject to duty or other form of tax.

Under the Jones-Costigan Act, passed in May, 1934, both the marketing of domestic sugar and the importation of sugar were made subject to control by quota. Control was continued in the Sugar Act of 1937 and subsequently extended. Under the Act of 1937 the amount of sugar needed to meet the requirements of consumers in the United States for each calendar year is determined by the Secretary of Agriculture. This amount is allocated among the various sugar-producing areas in accordance with a formula prescribed in the Sugar Act. The proportions established in the legislation allocated the domestic producers of the United States, including insular possessions, 56 per cent of estimated consumption. Cuba's share was set at 29 per cent, the Philippine Islands, 15, and other Latin American countries combined were allotted less than one per cent of estimated requirements.[3]

Reductions in tariff rates were made in trade agreements, but the basic quantitative limitations were retained throughout such arrangements. The emergencies of World War II brought about a suspension of sugar quotas by presidential proclamation in April, 1942. The proclamation cited the shortage of sugar as the reason for such action.[4]

Despite its temporary suspension, the sugar quota system has become a well-established principle in United States relations with Cuba and has probably been the most important factor affecting imports of Cuban sugar in recent years. In general, Cuba's share of sugar under the quota has exceeded that of years just preceding the system, but it has been materially smaller than in the years prior to 1930. In the period 1935–1939 Cuba supplied about three-tenths of United States requirements as compared with one-fourth in 1933, and one-half in 1929.[5]

Advocates of the sugar-control plan point out that it restricts domestic production as well as imports, and that quotas are necessary as an element of planned production. It has been contended, however, that the largest share of increases in the aggregate quota have been allotted to domestic producers of beet and cane. Such action, it is pointed out,

[3] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 18, p. 70.

[4] "The Americas and the War, Part IV," *Bulletin of Pan American Union*, 76:402, July, 1942.

[5] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 18, p. 71.

has led to expansion of production in the United States of Cuba's leading export product.[6]

Absolute quotas on imports of coffee into the United States were proclaimed by the President of the United States in 1941, in accordance with provision of the Inter-American Coffee Agreement.[7] Basic annual quotas are assigned to producing countries for exportation to this country and to the remaining market. Quotas may be changed by the Inter-American Coffee Board, which includes representatives of all countries participating in the agreement. To make certain that countries not participating in the agreement may not take advantage of its operation, the United States has specified quotas on imports from outside producers.[8]

Inasmuch as the basic purpose of this quota is to support the price of a Latin American product, rather than to aid domestic production, it rests on a fundamentally different basis than import controls discussed in this section. It is not solely an act of the United States and will be analyzed in detail in a subsequent chapter dealing with inter-American economic action.

Effective September 20, 1939, quotas on imports of certain raw cotton, cotton waste, and cotton textiles were imposed by the President of the United States.[9] Re-importation of cotton or cotton waste of United States origin was also prohibited. This action was taken upon recommendation of the United States Tariff Commission, under authority of Section 22 of the Agricultural Adjustment Act of 1933, as amended.[10] Under the changed price situation resulting in part from the payment of export subsidies, it was felt that imports might jeopardize the cotton program of this country. Except on cotton having a staple length of one and eleven-sixteenths or more, on which quota restrictions were suspended December 19, 1940, quotas are still in force.[11] Quotas were assigned to the following Latin American countries: Mexico, Brazil, Peru, Argentina, Haiti, Ecuador, Paraguay, Honduras, and Colombia.

[6] Percy W. Bidwell, *op. cit.*, p. 149.
[7] U. S. Department of State, *Bulletin*, November 30, 1940, pp. 483–488.
[8] *Ibid.*, August 23, 1941, p. 148.
[9] U. S. Tariff Commission, *25th Annual Report, 1941*, p. 44.
[10] "United States Import Quotas," *Monthly Bulletin of the American Tariff League*, No. 146–147, May–June, 1941.
[11] U. S. Tariff Commission, *25th Annual Report, 1941*, p. 45.

Quotas on wheat and wheat flour were imposed, effective May 29, 1941.[12] These quotas were recommended by the Tariff Commission following an investigation of wheat and wheat products being, or certain to be, imported. Like the quantitative restrictions placed on cotton, the wheat quota was considered necessary to support a domestic price and production policy. Allocations are made on the basis of quantities imported during a base period of January 1, 1929, to December 31, 1933. Quotas on imports of certain wheat and wheat flour were suspended by Presidential proclamation in April, 1942.[13] Argentina, Mexico, Brazil, and Guatemala were assigned quotas on wheat. Argentina, Cuba, Chile, Panama, and Uruguay received allotments for wheat flour.

Crude petroleum and its products enter the United States free of duty, but have been subject to import excise taxes since the Revenue Act of 1932. As was pointed out in the preceding chapter, a trade agreement signed with Venezuela, effective December 16, 1939, reduced the tax but limited the quantity of oil which could be imported at the new rate. This quantitative limitation, although it does not involve a tariff rate, is an example of the tariff type of quota used by the United States in its trade agreements program.

An annual quota for imports from all sources is set, and entries in excess of this amount are taxable at the former rate.[14] The limitation is set at a quantity not in excess of 5 per cent of the total quantity of crude petroleum processed in refineries in continental United States during the preceding calendar year.[15] Shares are assigned to supplying countries on the basis of United States purchases for the first ten months of 1939. In the original allocation, Venezuela was assigned 72 per cent of the quota, the Netherlands and her empire 20 per cent, Colombia 4, and the remainder was divided among all other countries.

Until about 1927, Mexico supplied practically all United States imports of crude petroleum and fuel oil.[16] The rapid development of the

[12] *Ibid.*, p. 44.

[13] "The Americas and the War, Part IV," *Bulletin of Pan American Union*, 76:402, July, 1942.

[14] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, p. 57.

[15] See U. S. Department of State, *Bulletin*, November 11, 1939, pp. 524–540.

[16] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 17, p. 91.

Venezuelan fields and the decline in Mexican production resulted in the emergence of Venezuela as the principal supplier in United States markets during the 1920's. In the years from 1929 to 1938, Mexico's share in United States petroleum imports had fallen to about 13 per cent.[17] The expropriation of foreign oil properties by the Mexican government, and the resultant boycott by American companies, caused a drastic slump in imports from that country.

Mexico's share in the petroleum quota has been very small, and it has been estimated that almost nine-tenths of United States oil imports from Mexico in the first eleven months of 1940 entered at the higher tax rate.[18] The allocation for the calendar year 1942 shows the following allotments by percentages: Venezuela, 70, the Netherlands, 21, and Colombia, 3. Mexico is included in the remainder with other countries.[19]

The allocations used in the petroleum quota raise an important question concerning the principle of equality of treatment which the United States emphasizes in its international commercial policy. Most-favored-nation treatment is considered by the United States to apply to all forms of trade regulation. In the allocation to her exporters of quotas imposed by other nations, the United States has insisted upon sharing in proportion to a previous representative period. The selection of the base period in 1939, when special conditions were unfavorable to Mexico, apparently does not conform to the treatment the United States has asked of other nations. Allocations to Mexico are interpreted in some quarters as having been influenced more by expropriation than by the desire to further the principle of equality of treatment.[20]

Entries of live cattle at reduced duties are subject to tariff quotas as a result of a trade agreement signed with Canada. Classifications of cattle, whose entry at reduced rates is limited, come mainly from Canada, but imports from Mexico are also affected by the restriction. In

[17] W. Diebold, "Oil Import Quotas and Equal Treatment," *American Economic Review*, 30:570, September, 1940.

[18] C. Southworth, "Toward Free Trade with Latin America," *Foreign Policy Reports*, 17:175, October 1, 1941. In the trade agreement signed with Mexico in December, 1942, however, the reduced rate was applied to all imports, without quota limitation. See U. S. Department of State, *Press Release* 599, p. 32.

[19] United States Department of State, *Executive Agreements, Series* 226, December 6, 1941, p. 1.

[20] W. Diebold, *op. cit.*, pp. 569–573.

most years since the agreement became effective, imports from Mexico have exceeded the amount permitted entry at reduced rates.[21]

Excise Taxes

Another non-tariff control used by the United States is the levying of excise taxes on imported products. This form of taxation was introduced in the Revenue Act of 1932 as a means of protecting domestic industries.[22] In many lines of industry prices were low, stocks were accumulating, and unemployment was increasing as a result of depression throughout the world. Coal, copper, and petroleum interests were particularly concerned over the possibility of imports, although exports of each had been in excess of imports for years.[23] Since the Hawley-Smoot bill had been passed only two years before, Congress felt the time was not opportune for more tariff legislation, and import excise taxes were included in the Revenue Act in the hope of aiding recovery.

Excise taxes to restrict the entry of foreign products may be classified in two categories. Taxes levied on the importation of goods are regarded as direct import taxes. Others may be levied on the processing of materials produced within the levying country, either in negligible amounts or not at all, and are known as processing taxes. Import excise taxes were applied originally to commodities produced in this country, but have been applied in later years to several commodities not produced domestically. Excise taxes of the import type have been used more extensively than those of the processing type, although the latter are more important from the standpoint of revenue.[24] The resort to protective excise taxes has been of minor significance in foreign trade, but mention of their application to certain Latin American exports serves as an example of this type of non-tariff control.

Petroleum and its products, although duty free, have been subject to import excise tax since 1932. Because of the size of the market, and the varied influences to which it is subjected, the effect of the excise tax upon the price of petroleum is difficult to trace. Some changes, how-

[21] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 17, p. 98.

[22] C. R. Whittlesey, "Excise Taxes as a Substitute for Tariffs," *American Economic Review*, 27:670, December, 1937.

[23] *Ibid.*, p. 671.

[24] *Ibid.*, p. 669.

ever, may have been produced in the export trade of the United States. Petroleum and its products moved from Venezuela to the Atlantic Coast prior to the imposition, whereas, in later years, an increasing amount of gulf oil moved to the Atlantic Coast while Venezuelan shipments to Europe increased. It is probable that the burden of the tax rests largely upon producers in Venezuela and Mexico.

The United States is normally a net exporter of copper, and it is doubtful if the removal of the excise tax would stimulate imports from Latin America to any considerable degree. Price movements following the imposition of the tax are of significance, however, in the case of copper. Prior to 1932, the price of copper in London was in excess of the New York price by an amount just about equal to transportation costs. After the imposition of the tax, the New York price rose to exceed London quotations, despite the fact that the United States was on an export basis until 1939.[25] This situation has been interpreted as evidence of the extreme degree of control exercised in the copper industry, and of the way in which an excise tax may aid in maintaining a price in excess of the world price.[26]

Cabinet woods enter the United States subject to an import excise tax.[27] Although exports of this product are not particularly important in Latin American trade, the item is mentioned as an example of the use of a non-tariff restriction on a commodity not produced domestically. Such taxes are undoubtedly passed on to domestic consumers in the form of higher selling prices.

In some cases excise taxes may result in bringing about a competitive advantage to other commodities. United States excise taxes on certain oils and fats, for example, have greatly increased imports of babassu nuts from Brazil. Babassu nuts and oil, free of duty and excises, compete directly with coconut oil and palm-kernel oil, both of which must pay duties and import taxes.[28]

Although import excise taxes are not particularly important in determining the flow of inter-American trade, their use is contrary to the present commercial policy of the United States. At the same time the Trade Agreements Program is operating to lower tariff rates and to bind

[25] C. Southworth, *op. cit.*, p. 176.
[26] C. R. Whittlesey, *op. cit.*, p. 675.
[27] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, p. 506.
[28] *Ibid.*, pp. 334–338.

existing duties, import taxes continue to discriminate against goods of foreign origin. In most cases, the objective of this type of restriction is not to raise revenue. As was pointed out above, import excise taxes were applied originally to aid domestic industries suffering from depression, but the continued protection of industries which operate upon an export basis is open to question.

The unrestricted admission of some commodities, petroleum for example, may operate as a restraint upon the exhaustion of natural resources. Free entry of low-grade crude could conceivably facilitate the application of high-grade domestic oil to more essential uses. The retention of excise taxes for copper may also hasten the exhaustion of natural resources, and, in addition, deprive independent small producers from drawing on foreign sources of supply in cases of shortage.[29]

Regulation of foreign trade by import restrictions of this type keep the doors open for all the practices associated with protective tariffs. People are less familiar with this portion of United States commercial policy, and that fact alone would make it a potentially restrictive device. The continuation of import excise taxes, whatever the extent of their application to Latin American products, is inconsistent with the objectives of Pan American economic cooperation.

Sanitary Regulations

The control of imports of animals and animal products is not a new principle in the regulation of foreign trade by the United States. As early as 1865, Congress authorized the prohibition of importation of cattle to guard against the introduction of contagious diseases.[30] Various prohibitions and quarantine measures have followed since, but the embargo imposed by the Tariff Act of 1930 has been a particularly disturbing factor in relations with Argentina.

The United States Department of Agriculture, in charge of administering laws affecting the importation of cattle, was given authority by statutes prior to 1930 to impose sanitary measures against imports from any country, or part of a country, found to be infected or exposed to infection.[31] Countrywide embargoes, however, were not mandatory.

[29] C. R. Whittlesey, *op. cit.*, p. 678.
[30] Percy Bidwell, *op. cit.*, p. 205.
[31] *Ibid.*, p. 212.

The Department of Agriculture had exercised its authority in making exceptions in areas and zones when this could be done without the risk of bringing infected products to the United States. An embargo issued in January, 1927, practically cut off imports from Argentina and other South American countries. This order presumably applied, however, only to supplies brought from infected areas.[32]

The embargo imposed by the Tariff Act of 1930 prevents the importation of fresh meat from all countries in any area of which hoof-and-mouth disease exists. Acting under the authority of Section 306(*a*) of the act, the Bureau of Animal Industry in the Department of Agriculture has issued orders which, in effect, prohibit the imports of live animals and meats from all Latin American countries except the Caribbean area.

In May, 1935, the United States signed a Sanitary Convention with Argentina providing for a return to regulations which prevailed prior to 1930, but the United States Senate has refused to ratify it.[33] The ratification of this Convention would still prevent meat imports from all infected areas in Argentina and would apply to practically the entire country.

The embargo of 1930 has assumed importance in United States relations with Argentina far out of proportion to its economic significance. The imposition of the embargo, coming on the heels of increased tariff rates, was regarded by Argentina as adding insult to injury. The influence of the American livestock industry, so typical of the spirit of protectionism in this country, cannot be overlooked in seeking an explanation of the use of sanitary control for economic purposes. The objectives of quarantine measures are not to be questioned, but the principle of equality of treatment has no doubt been circumscribed by discriminatory treatment in this case.

Silver Purchase Program

An example of the influence of domestic economic policy upon international relations is the Silver Purchase Program of the United States. The program was intended to serve as one of the elements in the modi-

[32] *Ibid.*, p. 214.

[33] *Ibid.*, p. 217, and J. C. de Wilde and Bryce Wood, "U. S. Trade Ties with Argentina," *Foreign Policy Reports*, 17:227, December 1, 1941.

fication of the monetary system of the United States, but it also became an important factor affecting the international relations of silver-producing countries. Inasmuch as Mexico leads the world in silver production, an analysis of this portion of United States monetary policy is pertinent to this discussion.

The current silver program of the United States began in December, 1933, after the World Monetary and Economic Conference in London. The United States entered into an agreement with the chief producers and users of silver under which the major producing countries agreed on the amount of silver which they would absorb and keep off the market.[34] Approximately 70 per cent of this amount was allotted to the United States. This agreement was followed by the purchase of newly mined domestic silver at prices in excess of quotations on the open market. Advocates of the increased use of silver in the monetary system of the United States pressed for further recognition of the metal, and in 1934 a Silver Purchase Act was passed. This act authorized the purchase of silver at home and abroad to augment the proportion of silver to gold in the monetary stocks of the United States.

In the years immediately after the passage of the Silver Purchase Act, large amounts of silver came to the United States from all countries having or producing silver. Imports from Mexico rose from $17,600,000 in 1933 to $63,700,000 in 1935, an increase of more than 250 per cent.[35] Imports declined after 1935 but remained above the pre-1934 average.

The price of silver rose from 44 cents per ounce in December, 1933, to 81 cents in April, 1935, and returned in 1936 to a general level of 44 to 45 cents.[36] The rise in price in 1935 made Mexican silver more valuable as bullion than as coins based on a silver monetary standard. As a consequence, coins were sold as bullion. United States imports of silver coins from Mexico accounted for almost one-fourth of the value of imports of bullion from that country in 1935.[37] This situation led to severe currency contraction in Mexico and, as a result, the Mexican government decreed in April, 1935, that all silver and silver coins were

[34] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 17, p. 81.
[35] *Ibid.*, p. 86.
[36] *Ibid.*, pp. 36–37.
[37] *Ibid.*, p. 89.

state property. The decree required their return to the Treasury in exchange for notes which could not be converted into metal.[38]

In 1936, a Silver Purchase Agreement was signed with Mexico whereby the United States agreed to purchase practically all that country's newly mined silver. The agreement was to remain in force until February, 1936, and from month to month thereafter. In March, 1938, a few days after the expropriation of oil properties by Mexico, the United States discontinued fixed monthly purchase arrangements. Substantial purchases of silver continued, however, despite the termination of the agreement.

The silver policy of the United States has been the most significant aspect of this country's commercial policy toward Mexico since 1933. Silver, Mexico's leading export, is the largest source of that government's revenue and is customarily the largest United States import from that country. The price of silver and the volume of imports into the United States have been determined almost entirely by the operation of this country's purchases. While the program brought an element of prosperity to Mexico, and temporarily increased its foreign purchasing power, it also produced monetary instability in that country.

Export Control

World War II brought modifications in the commercial policy of the United States. Modern warfare necessitates the fitting of foreign trade into plans for making sources of supply secure for a nation's military organization. In addition, the disruption of trade in goods needed by potential or actual enemies is a major objective of international economic relations. Imports are considered in terms of human destiny rather than on the basis of cost. Likewise, exports are thought of not so much as the profitable result of economic efficiency, but rather in terms of whether they are additions to, or subtractions from, the supply of resources available for war.

Economic devices to control international trade did not await the actual involvement of the United States in war. Contrary to experience in World War I, foreign trade and financial relations were already controlled by administrative agencies prior to declaration of war in Decem-

[38] *Ibid.*, p. 37.

ber, 1941. Emergency devices were in motion to control economic relations in a defensive manner.[39] These devices included export control, freezing of foreign funds, purchase of materials, financial and material aid to potential allies, and other practices designed to support the so-called neutral position of the United States. The declaration of war in 1941 set the stage for an expansion of these devices, supplemented by additional practices consistent with the position of a warring nation. Many of these acts of economic warfare are directly concerned with relations between the United States and Latin America and are analyzed in the following discussion.

Export control was attempted upon a voluntary basis in 1939 and, although meeting with a reasonable degree of success, gave way to legislative action in July, 1940. The President was authorized to prohibit, or curtail, exportation of any military equipment or munitions, machinery, tools, or materials or supplies necessary for manufacture or service thereof. A selective principle was followed in the early administration of the act, embargoes being placed upon such commodities as gasoline, iron and steel scrap, iron ore, certain iron and steel products, and other items most directly concerned with military defense. Proclamations of these selective embargoes announced that licenses would be issued only for exports to Great Britain and the Western Hemisphere. In January, 1941, a system of general export licenses was proclaimed, and licenses of a limited nature were made available for trade with a list of countries which included Brazil, Argentina, and Cuba.

Licensing of exports by the United States became a matter of serious concern to Latin American nations. Cut off from usual sources of supply in Europe, shortages developed in many lines of consumer's goods, as well as in machinery and equipment. For the first time in ten years Latin Americans had purchasing power, and export control was a blow to prospective purchasers who looked to the United States for at least a partial solution to the pressing problem of shortages. On the other hand, business enterprises in the United States, subject to a system of priorities, were disturbed over a system of control which would permit exports of machinery and materials to Latin American nations where priority regulations were not operative.

[39] Percy Bidwell, "Our Economic Warfare," *Foreign Affairs*, 20:421, April, 1942.

A solution to this difficulty was found in the assurance that the United States would make goods available to Latin America on a basis of equality with allotments under priority regulation in the United States. In effect, this meant that after United States requirements for her military forces and Lend-Lease program had been met, Latin American countries should share equally with the needs of industries supplying civilian wants in the United States.

Priority ratings gave assurance to Latin American buyers that their needs would receive attention in order of preference, but there was no guarantee that commodities would be available after prior needs of the United States had been met. To provide more certainty that goods would be available, the allocation of fixed quotas of specified commodities was requested by Latin American nations.

The first of these allocations was made on December 2, 1941, when it was announced that 218,000 metric tons of tin plate would be made available for export to Latin American nations for a twelve-month period.[40] Similar allocations were made for the first quarter of 1942 for twenty-six commodities, including steel, chemicals, rayon, tungsten, nickel, platinum, and miscellaneous farm equipment.[41] Specified quantities of a list of forty-three vital materials were allocated for delivery for the second quarter of 1942.[42] The list of preferences for the third quarter of 1942 included some additional materials but also omits certain products formerly granted preference. Among those omitted in that list are light trucks, cranes, hoists, derricks, mechanical household refrigerators, caustic soda, small electric heating appliances, and electric household refrigerators.[43]

The supply of essential articles to Latin America has now been systematized to give aid and guidance to export control authorities in the United States. In each Latin American country an agency has been set up to issue Certificates of Necessity to importers, up to the total amount of the United States allocation of products to each country.

[40] J. C. de Wilde, "Wartime Economic Cooperation in the Americas," *Foreign Policy Reports*, 17:293, February 15, 1942.

[41] William Raleigh, "The Reciprocal Trade Agreements Program in Latin America," *Commercial Pan America*, 11:20, January–February, 1942.

[42] U. S. Department of State, *Bulletin*, April 4, 1942, p. 274.

[43] "New Preferences for Other Americas," *Foreign Commerce Weekly*, 8:17, August 22, 1942. See "U. S. Export Control and Related Announcements" appearing in each issue of *Foreign Commerce Weekly*.

These certificates are then forwarded to exporters in this country, who present them to the Office of Export Control in the Board of Economic Warfare. The Board then considers requests of domestic exporters for licenses to ship.[44] The system places a considerable share of responsibility upon the Latin American authorities for equitable distribution among users in their countries.[45]

Freezing of Foreign Funds

The "freezing" of foreign funds, which began in April, 1940, is another United States foreign trade control affecting trading relations with Latin America. Action to prevent movement of foreign funds in United States banks was taken originally to protect the holdings of European nations being over-run by the German military machine. German and Italian funds in New York were not blocked, however, and these countries were free to transfer purchasing power to Latin America for purchases of supplies, or to further propaganda.[46] In June, 1941, German and Italian assets in the United States were frozen along with those of other continental states. All unlicensed trade or financial transactions between nationals of the United States and any blocked country, or its nationals, were prohibited.

This freezing of assets was of direct concern to Latin American nations. Many enterprises in the various nations were under the direction of Italians and Germans, and American exporters were wary of violating the freezing regulations by accepting their orders. At the same time, the nationality of operators of other firms was unknown, and, to avoid the risk of severe penalties, many American exporters were unwilling to accept Latin American orders of any description. The problem was one of preventing transactions of aid to the Axis without interrupting the flow of needed goods to Latin American purchasers.

The problem was met in the issuance, July 17, 1941, of a Proclaimed List of Certain Blocked Nationals.[47] This list, known as a blacklist, contained the names of 1,800 persons or business firms. Shipment of

[44] David H. Popper, "The Rio de Janeiro Conference of 1942," *Foreign Policy Reports*, 18:33, April 15, 1942.

[45] "Export Control Cooperation," *Inter-American Monthly*, 1:36, May, 1942.

[46] Percy Bidwell, "Our Economic Warfare," *Foreign Affairs*, 20:425, April, 1942.

[47] U. S. Department of State, *Bulletin*, July 19, 1941, p. 41.

articles covered by the Export Control Act of July 2, 1940, to any persons named on the list was prohibited except under special circumstances. The original blacklist has been enlarged from time to time.

The publication of the blacklist brought some unfavorable reactions in certain Latin American countries. Guatemalan coffee firms were listed in such large numbers that the Central Bank intervened in the interest of the industry. A Committee of the Colombian Senate called attention to what it considered as injury to business firms in that country, and individuals in Brazil and Mexico voiced certain objections to the blacklist.[48]

Purchasing Agreements

United States plans for defense had long emphasized the necessity of building up stock piles of materials for possible war, and machinery was created for expanding purchases of certain strategic materials. The purchasing of supplies for government account cuts across the lines of various agencies and is directly facilitated by the Reconstruction Finance Corporation and its corporate subsidiaries. Included among these subsidiaries are the Rubber Reserve Company, Metals Reserve Company, and the Defense Supplies Corporation.

The purchasing program began by contracting for strategic materials and was concerned primarily with acquiring all available surpluses of particular commodities. Buying for supply for which we had immediate, or almost certain future, need was the important factor underlying the program. Little concern was given to transactions whose objective was precluding purchases by Axis powers. The rapidly expanding scope of the purchasing program led, however, to overall agreements with certain countries. These contracts cover the entire export of important materials, and preclusion is the predominant element.

The following discussion will review the important aspects of the purchase program as it affects products of Latin American nations. Various types of transactions will be examined by countries, including both preclusive and non-preclusive contracts. Comment will be made on purchases made prior to United States entry into World War II as well as those entered into since December, 1941.

[48] Percy Bidwell, "Our Economic Warfare," *Foreign Affairs*, 20:427–428, April, 1942.

United States government agencies have purchased relatively little from Argentina. The Metals Reserve Company has purchased small quantities of zinc and lead concentrates and tungsten.[49] On November 29, 1941, this corporation entered into a contract to buy 3,000 tons of tungsten concentrates annually, an amount in excess of current Argentine production.[50] The Argentine government also agreed to prohibit exports to all other countries. Defense Supplies Corporation has arranged for the purchase of all the available Argentine horsehair as a substitute to be used for pig bristles in making brushes.[51]

The Metals Reserve Company and the Rubber Reserve Company have signed an agreement with Brazil confining the exportation of eleven materials, up to specified annual quotas, to the United States. Bauxite, ferro-nickel, industrial diamonds, manganese ore, mica, rubber, quartz crystals, titanium, zirconium chromite, and beryl ore make up the list. If purchases in the amounts specified are not made by private sources, the two government corporations agreed to purchase the remainder at prices to be decided upon with the Bank of Brazil.[52] In another transaction, in March, 1942, the Rubber Reserve Company contracted to purchase the entire output of Brazilian raw rubber for a period of five years.[53] Negotiations have also been completed by which the Metals Reserve Company and Great Britain will purchase 750,000 tons of Brazilian iron ore annually from properties whose development is to be aided by these two governments. In still another agreement, the Commodity Credit Corporation has contracted for the purchase of the exportable surplus of Brazilian babassu and castor oil. These oil stocks are to replace tung and coconut oil formerly imported from the southwest Pacific.[54]

The entire output of Bolivian tungsten for three years was purchased in a contract signed in May, 1941, by the Metals Reserve Company and

[49] J. C. de Wilde and Bryce Wood, *op. cit.*, p. 227.

[50] J. C. de Wilde, *op. cit.*, p. 288.

[51] "Report of the Secretary of Commerce Covering the War and Defense Activities of the Reconstruction Finance Corporation and Its Subsidiaries," *Foreign Commerce Weekly*, 6:6, March 28, 1942.

[52] "United States Agreement with Brazil on Strategic Materials," *Bulletin of Pan American Union*, 75:670, November, 1941.

[53] "The Americas and the War, Part II," *Bulletin of Pan American Union*, 76:283, May, 1942.

[54] U. S. Department of State, *Bulletin*, August 29, 1942, p. 725.

Bolivian producers and guaranteed by the Bolivian government.[55] This same corporation had started a program in 1940 to buy tin ore and concentrates from Bolivia over a five-year period. Announcement was made in June, 1942, of the signing of an agreement whereby the Rubber Reserve Company would purchase during the next five years all rubber produced in Bolivia other than amounts required for essential domestic needs.[56]

An agreement calling for the purchase of a list of minerals not absorbed in the normal course of business with Western Hemisphere countries was made with Chile in January, 1942. Copper, gold ore concentrates, manganese, lead, zinc, antimony, wolframite, molybdenum, cobalt ores, and refined mercury make up the list.[57] The Metals Reserve Company also contracted to purchase a minimum quantity of copper ore concentrate.

An arrangement of the same type was entered into with Mexico on July 14, 1941, covering a list of seventeen metals and several vegetable fibers.[58] The Metals Reserve Company and the Defense Supplies Corporation agreed to buy, at prevailing prices, any surpluses of those materials not purchased by non-governmental industries in the Western Hemisphere. In April, 1942, a decision was reached regarding the purchase by the United States of copper, lead, and zinc in metallic form or in ores and concentrates, with a view to stimulating Mexican production of strategic and critical minerals.[59] The Commodity Credit Corporation had agreed to purchase the entire exportable surplus of Mexico's alcohol production up to the end of February, 1943, and the Rubber Reserve Company will purchase until December 31, 1946, any exportable surplus of rubber produced in that country.[60]

[55] "Message of the President of Bolivia," *Bulletin of Pan American Union*, 75:667, November, 1941.

[56] "The Americas and the War, Part VII," *Bulletin of Pan American Union*, 76:599, October, 1942.

[57] J. C. de Wilde, *op. cit.*, p. 289.

[58] "Mexico's Surplus Strategic Materials," *Bulletin of Pan American Union*, 75:671, November, 1941.

[59] "The Americas and the War, Part IV," *Bulletin of Pan American Union*, 76:405, July, 1942.

[60] "The Americas and the War, Part VII," *Bulletin of Pan American Union*, 76:599, October, 1942, and U. S. Department of State, *Bulletin*, September 12, 1942, p. 752.

In October, 1941, the Metals Reserve Company contracted to buy from Peru exportable surpluses of minerals not absorbed in the ordinary course of trade with countries of the Western Hemisphere.[61] In April, 1942, the Rubber Reserve Company acquired all rubber produced over a five-year period, other than amounts required by Peru, and the Commodity Credit Corporation has purchased all cotton, for the duration, in excess of Peruvian consumption and export.[62]

The entire Cuban sugar cane crop for 1942 has been purchased by the Defense Supplies Corporation.[63] This arrangement embraces the entire crop, with the exception of sugar and molasses necessary for Cuban consumption, and a small amount reserved for Latin American countries. The contract is undoubtedly a war measure to forestall a possible shortage in the United States. Nevertheless, the agreement is of particular importance because of the significance of sugar in the economic life of Cuba. Past attempts of the United States to formulate a sugar policy in keeping with protection of home industry and relations with Cuba have not always been successful. Hope is expressed in some quarters that this contract may serve as a pattern for more permanent cooperation in the commodity whose production and sale have been the most potent factors affecting Cuban economic stability.[64]

In an agreement with Haiti, the Commodity Credit Corporation purchased the carry-over of that country's 1941 cotton crop, the surplus 1942 crop, and subsequent cotton crops for the duration of the war.[65]

Nicaragua has agreed to sell to the Rubber Reserve Company all the crude rubber available for export, and the same organization has agreed to purchase during the next five years all rubber produced in Costa Rica, Ecuador, and Colombia not required for essential domestic needs.[66]

[61] J. C. de Wilde, *loc. cit.*

[62] U. S. Department of State, *Bulletin*, April 25, 1942, p. 369.

[63] "Report of the Secretary of Commerce Covering the War and Defense Activities of the Reconstruction Finance Corporation and Its Subsidiaries," *Foreign Commerce Weekly*, 6:6, March 28, 1942.

[64] Ramiro Guerra, "Sugar: Index of Cuban-American Cooperation," *Foreign Affairs*, 20:743–756, July, 1942.

[65] U. S. Department of State, *Bulletin*, April 18, 1942, p. 354; April 25, 1942, p. 368.

[66] U. S. Department of State, *Bulletin*, April 18, 1942, p. 354; "The Americas and the War, Part VI," *Bulletin of Pan American Union*, 76:539, September, 1942; "The Americas and the War, Part VII," *Bulletin of Pan American Union*, 76:599, October, 1942.

Rubber purchase agreements have also been signed with Honduras, El Salvador, Guatemala, and Panama.[67] Each of these agreements calls for the purchase until December 31, 1946, of all rubber produced in these countries not required for essential domestic needs.

In addition to these formal purchasing transactions the various governmental corporations are organized to purchase materials as recommended by other agencies of the government. The purchase of foreign hides and skins, for example, if so recommended by the War Production Board, would involve South American countries, principally Argentina. Arrangement for transportation, storage, and purchase of wool is another case in which Latin American nations may benefit.[68]

An outstanding development associated with this purchasing program is the authority granted to make emergency purchases of war materials and to import them free of duty during the emergency. In March, 1942, tariff duties were suspended, for the emergency, on scrap iron, scrap steel, and non-ferrous metal scrap.[69] This legislation was followed by an Executive Order granting authority to import "war materials" free of duty. This authority was granted to the Reconstruction Finance Corporation and its subsidiaries, to the Secretary of the Treasury, and to the Departments of War and Agriculture.[70] Formerly the Secretary of the Navy was the only one to whom such authority had been extended.

The extension of authority concerning imports opened the way for temporary tariff removal on almost any dutiable commodity, and brought vigorous objection from farm interests in the United States. The Department of Agriculture hastened to point out, however, that "war materials" would probably be interpreted to mean industrial raw materials rather than agricultural commodities.[71] Nevertheless, the

[67] U. S. Department of State, *Bulletin*, August 8, 1942, p. 690; August 29, 1942, p. 723; September 12, 1942, p. 752; and September 19, 1942, p. 773.

[68] "Report of the Secretary of Commerce Covering the War and Defense Activities of the Reconstruction Finance Corporation and Its Subsidiaries," *Foreign Commerce Weekly*, 6:7, March 28, 1942.

[69] "The Americas and the War, Part III," *Bulletin of Pan American Union*, 76:351, June, 1942.

[70] "Emergency Purchase and Importation of War Materials," *Foreign Commerce Weekly*, 7:17, June 20, 1942.

[71] "Tariff Juggle," *Business Week*, June 15, 1942, p. 49.

policy of the government in buying materials upon which it pays duties to itself was abandoned as a war measure.

As the foregoing discussion shows, World War II brought the United States into a vast buying program touching practically all the primary commodities of world trade. This country assumed the role of a buyer willing to take virtually all the raw materials and foodstuffs available for export in any portion of the world. Many of the agreements mentioned above lost their importance as preclusive purchases when the United States formally entered the war. Although they were instrumental in depriving the Axis powers of needed materials, the virtual elimination of Axis communications removed the original purpose of such transactions. The agreements are of value, however, in that they supplement private purchases in providing the sinews of war, and provide Latin American nations with more certain markets for many raw materials. Nevertheless, a purchase program cannot solve the surplus problem for many of our southern neighbors when products are barred from distant markets by conditions of wartime shipping.

Purchases have not been confined to supplies at hand for a year or two, but stretch into the future for quantities not yet produced. For many products, old sources of supply must be enlarged. For others, new sources must be brought into production. Willingness to buy cannot create output. Transportation and production facilities must be improved in remote areas. As a result of disrupted shipping services, Latin American sources stood out as objects of immediate development. Thus, expanding purchases for purposes of war may lead to permanent shifts in economic organization in the Latin American area. Discussion of the policy of the United States in respect to these possible long-run developments has been presented in preceding chapters, and will be further considered in a subsequent chapter dealing with institutional measures as they affect Pan American relations.

Price Control

Another major problem which involves Pan American trade is the control of prices in the United States. The economies of all the Americas have become more closely interrelated than ever before, and movements of prices in the United States directly influence price levels in

Latin America. The United States has declared its price control policy to extend to exports to Latin America.[72]

In limiting prices on export commodities the policy of price control authorities is to prevent exporters from charging more than domestic price ceilings, plus legitimate expenses of doing export business at a reasonable profit margin. The major aim is stated to be that of keeping goods flowing to the Latin American nations which are dependent upon the materials and manufactured goods of the United States. Where it can be shown that export price regulations fail to allow sufficient premium to keep goods moving, changes in regulations may be made. The problem in export price control is to check prices against excessive rises, and at the same time not lower them to the point where exporters are not interested in producing for foreign markets. To go beyond either point would affect the living costs and the actual delivery of much needed supplies to Latin American nations. United States price controls cannot guarantee prices to ultimate Latin American consumers. The full benefit of ceilings on export commodities calls for coordinated price control in all the Americas.

Office of the Coordinator of Inter-American Affairs

Many governmental agencies are engaged in various aspects of international economic relations with Latin America. Such agencies range from those associated directly with the war effort in an immediate sense to others whose concern is primarily that of future long-run development. Effective cooperation between the Americas required an organization to coordinate the work of public agencies in the United States, and to fit the work of private agencies into the whole general program. Such an organization, established by Executive Order of July 30, 1941, is known as The Office of the Coordinator of Inter-American Affairs.[73]

The organization is set up within the Office for Emergency Management and is under the direction and supervision of the President. Among the important duties of the office are serving as Coordinator of Cultural and Commercial relations, cooperation with the Department

[72] Seymour E. Harris, "Wartime Price Control and the Americas," *Foreign Commerce Weekly*, 8:12, July 11, 1942.

[73] Processed: Office of the Coordinator of Inter-American Affairs, *Summary of the Activities of the Coordinator of Inter-American Affairs*, March, 1942.

of State, recommendation and execution of programs in commercial and economic fields, and recommendation of legislation pertinent to Inter-American relations.[74]

In implementing the foreign policy of the President and the Department of State, the office divides its work into four classifications, dealing with financial and commercial development, cultural interchange, communications, and social and civic welfare. Underlying the work of the organization are considerations of the emergency aspect of defense, and the long-term aspects of economic and cultural development.

On the economic front, the Office has aided in many measures, such as the list of Certain Blocked Nationals and the purchase of strategic materials. The Commercial and Financial Division cooperates with the Board of Economic Warfare, the Export-Import Bank, and the Reconstruction Finance Corporation and its subsidiaries. The personnel of the office cooperates with other agencies of similar type and purpose, including commissions in which all the American nations cooperate. Groups of economic and technical experts and health and sanitation specialists have been sent to Latin America, and industrial, commercial, and agricultural scholarships are provided in the United States for young men from the other American Republics. These are only examples of the broad field of activities carried on by the office.

Conclusion

United States commercial policy toward Latin America has been shown to cover a wide variety of trade controls. Import quotas, excise taxes, and sanitary regulations were types of non-tariff controls associated with Pan American trade prior to World War II. The effect of the Silver Purchase Program was clearly noticeable almost immediately following its inception in 1933. The other non-tariff trade controls discussed in this chapter, however, became a part of United States policy in the midst of world conflict.

The administration of these controls over international trade has brought a high degree of cooperation between the United States and Latin America. This has been clearly shown in the operation of export control, the freezing of foreign funds, price control, and Lend-Lease aid. The vast purchasing program of the United States, however, is prob-

[74] U. S. Department of State, *Bulletin*, August 2, 1941, p. 94.

ably the outstanding example of economic cooperation. This program is viewed by some as a direct shift in the traditional commercial policy of this country toward Latin America. The authority to import materials of war free of duty is cited as further evidence of a changed policy.

International cooperation in the purchase and sale of goods is to be desired at all times, but the war-purchasing program has not done away with United States restrictions upon imports from Latin America. The Reciprocal Trade Agreements Program still must operate within the limitations of the Tariff Act of 1930, and portions of Latin America and the United States yet produce commodities which are competitive.

Facts seem to indicate closer economic cooperation than prevailed in the past, and some of the long-run purchasing agreements may bring about desirable shifts in economic activity in certain Latin American nations. It must be emphasized, however, that many modifications in traditional trading relations come about in an environment of war. Patterns of consumption and production in time of peace are viewed far differently from the way they are when nations are at war, and to continue newly adopted practices under severe tests of post-war reconstruction is a challenging problem. Trading methods have changed in the direction of emphasizing mutual dependence, but the path of future collaboration cannot avoid the ceaseless pressure of fundamental economic forces.

Chapter 12

LATIN AMERICAN TARIFF POLICY

THE TARIFF policy of Latin America has long been intimately related to the nature of the area's economy. Prior to 1929, the nations south of the Rio Grande seldom attempted to influence markedly or to divert the course of foreign trade. They were dependent upon the yield from revenue tariffs for the bulk of their public revenue, and they were dependent upon the great foreign powers with which they dealt for their very subsistence. The growth of restriction, bilateralism, multiple-column tariffs, exchange control, quotas, and other devices has come only with the breakdown of the world order which allowed Latin America to trade with the ends of the earth.

During the latter half of the nineteenth century and the first three decades of the twentieth, Latin American tariffs were normally designed to yield revenue. Tariff schedules were usually single-column, with conventional agreements largely confined to assurances as to most-favored-nation treatment. With the onset of the world economic crisis and depression, tariff retaliation, bilateralism, and embryonic non-tariff controls became significant in Latin America for virtually the first time. During the 1930–1939 decade, higher rates, preferential bilateralism, trade balancing, and incipient protectionism dominated, although customs revenues remained the bulwark of most fiscal systems.[1] For almost the first time in the history of independent Latin America, such non-tariff controls as exchange regulation and import quotas usurped the former position of tariffs as the principal implements of commercial policy. With the coming of World War II, bilateralism and restrictionism were soon somewhat tempered by the elimination of the European traders devoted to such treatment. There has been a marked increase, however, in policy integration within the hemisphere. A host of treaties among Latin American nations, between Latin America and the United States, and between Latin America and Canada have appeared. Customs unions have been pressed with new vigor, and

cooperation on a hemispheric scale has tempered the provincialism of the past. Such hemispheric cooperation, particularly of an institutional nature, will be analyzed in a subsequent chapter and will be merely touched upon here.

Latin American Tariff Policy Prior to 1929

Despite the notable impact of World War I, Latin American tariff policy remained much the same during the 1920–1929 decade. The basic Latin American economy had not been materially altered—dependence upon a few export staples, lack of a rounded fiscal system, and reliance upon continuance of at least a pseudo world order. Traditional Latin American tariff policy, as exemplified during the 1920's, can be readily characterized. First, most tariffs were designed to yield revenue rather than protection. Second, export duties played an important supplementary or even dominant role. Third, most Latin American nations employed a single-column tariff, made few concessions, and practiced at least nominal equality of treatment.

Revenue Tariffs

Few areas in the world have so depended upon customs duties for public revenue. During the 1920's, most nations south of the Rio Grande built their fiscal systems upon revenue from import and export taxes. In this respect, these countries were in about the same stage of fiscal development as the United States prior to the Civil War. Protection was definitely a secondary factor, although that element was sufficiently potent to induce the migration of branch plants to Latin America.[1] Since rates were generally quite low and levied against products with rather inelastic demand, the restrictive effect of Latin American tariffs was negligible. Exporters to Latin America were fully as concerned with the general degree of prosperity, the price level, substitutability, and the tariff rate on substitutes, as with the duty imposed upon their product. Indeed, it was observed in 1925: "In general, the tariff in Latin America is best considered when it is not considered."[2]

[1] See D. M. Phelps, *Migration of Industry to South America.*

[2] William Wells, "The Tariff Barrier in Latin America," *Bulletin of Pan American Union*, 59:590–598, June, 1925.

Fiscal statistics of Latin American nations during the mid-1920's mirror this dominance of customs duties, which was in turn but a manifestation of the pivotal role of foreign trade. These figures actually understate the case, since many nations taxed trade obliquely, through consular fees, wharfage, sales by national monopolies, internal excise taxes, and similar devices. To keep the criterion consistent, however, proportions of total public revenue yielded by customs duties alone will be given.

In Central America, every nation save Panama derived more than 50 per cent of total revenue from customs duties.[3] Indeed, Costa Rica, Guatemala, and El Salvador derived 60 per cent or more of their total receipts from this source. South American reliance upon customs duties was almost as great, with Uruguay, Paraguay, Chile, Colombia, and Venezuela deriving over half their revenue from duties.[4] In Paraguay, customs duties yielded over 70 per cent of total governmental receipts. Even in those nations wherein duties yielded less than half of total revenues, yields were nevertheless appreciable. The proportion of total revenue produced by customs taxation in these remaining countries include Argentina, 47 per cent; Bolivia, 46.2 per cent; Peru, 45.1 per cent; Ecuador, 38.6 per cent; and Brazil, 32.8 per cent. All the figures mentioned were for 1924–1926, the specific years involved being those which seemed most representative in each instance.

Export Taxes

The second feature of Latin American tariff policy prior to 1929 was the continued importance of export taxes. Many nations had long relied upon this type of customs duty, although World War I apparently accentuated such taxation in several instances. Export taxes have traditionally been imposed by non-industrial countries and have been designed primarily for revenue purposes.[5] They have been popular because they are easily collected and replace politically inexpedient production or land taxes. Most Latin American export taxes during

[3] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin* 564.

[4] *Ibid.*, 497, 517, and 524. Also *Trade Promotion Series* 30, 43.

[5] Lynn Edminister, "Export Duties," *Encyclopedia of the Social Sciences*, Vol. VI, pp. 21–23.

the 1920's were moderate and upon articles produced on a large scale and almost entirely exported.[6] A few nations, plus the Brazilian states, levied export taxes on virtually all commodities, these duties ranging from one to 5 per cent but sometimes exceeding 10 per cent.[7] In most instances, however, export duties were levied upon selected products, with rates varying sharply from commodity to commodity. Although a few nations had broad and elaborate systems, most export tax structures were on a rather haphazard basis.[8]

A few nations enjoying a monopoly or quasi-monopoly status levied export taxes upon some products. These duties were employed to regulate production, exports, and world prices. Familiar examples are Brazil's export tax on coffee and Chile's famous tax on nitrates. Chile relied so heavily upon this tax for revenue that the gradual collapse of the Chilean nitrate industry after World War I posed a baffling problem. If she abolished the export tax in order to compete with the synthetic nitrate industry, her fiscal system would be undermined. If she maintained the tax, the nitrate industry would be forced further into the abyss and her ultimate fiscal condition would still be bleak.

An analysis of the yields from selected export tax systems during the 1920's reveals the divergent role of export taxes in various countries. In some nations such duties were vital elements of the total tax structure, in others they played a very subordinate role. Selected countries and the relative portion of total revenue produced by export taxes include[9] Chile, 24.1 per cent; Guatemala, 17.7 per cent; Bolivia, 16.3 per cent; El Salvador, 14.4 per cent; Peru, 12 per cent; Costa Rica, 10.7 per cent; Ecuador, 9.3 per cent; Argentina, 5.3 per cent; Honduras, 4.5 per cent; and Colombia, only 0.7 per cent.

Many of these export tax systems depended upon a single product or small group of products for their yield. The Chilean export tax on nitrates and iodine is again the classic example. In the 1893–1917 era, the export tax on nitrates and iodine yielded 50 per cent or more of the

[6] League of Nations, *Export Duties*, pp. 1–11.

[7] Lynn Edminister, *loc. cit.*

[8] For a detailed description of the various Latin American systems, see U. S. Bureau of Foreign and Domestic Commerce, *Foreign Tariff Series* 42, pp. 165–184.

[9] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletins* 497, 517, 524, and 564.

total national revenue in all but three years.[10] With the gradual dwindling of foreign markets for Chilean natural nitrates, the tax yielded a declining portion of national revenue. Nevertheless, it yielded at least one-fourth of the total revenues during the remainder of the 1920–1929 decade. Over the 1880–1929 period, the tax brought in 42.8 per cent of Chilean public revenues.

Single-Column Schedules

The third feature of most Latin American tariffs prior to 1929 was their single-column, autonomous nature. At least nominal, and usually actual, equality of treatment was the rule as long as the world economy remained open to trade. Only a few significant exceptions from such treatment can be noted in the long era prior to 1929 and the outburst of bilateralism. Cuba and the United States began extending preferential treatment to each other early in the twentieth century. A sizable sprinkling of the numerous commercial treaties negotiated by Latin American countries was also conditional.[11]

The general policy of single-column, equal treatment was flanked and bulwarked by a large number of most-favored-nation assurances.[12] The majority of these were unconditional either explicitly or implicitly, although a few were definitely conditional. These most-favored-nation pacts dated from 1825 in Argentina, and most of the treaties negotiated prior to 1929 were concluded during the nineteenth century. The bulk of these assurances were extended to such nations as the United Kingdom, the United States, Spain, and occasionally with neighboring Latin America. Few of these commercial treaties, however, contained actual duty concessions.

Latin American Tariff Policy 1930–1939

During the late 1920's, the imminent crumbling of the unstable world order of the post-war era began to be evident. With the eco-

[10] Guillermo Suro, "The Reorganization of the Chilean Nitrate Industry," *Bulletin of Pan American Union*, 65:515, May, 1931.

[11] 73d Congress, 1st Session, *Senate Document 7*, pp. 18–41.

[12] U. S. Tariff Commission, *Reference Manual of Latin American Commercial Treaties.*

nomic crisis in the United States in 1929 and the rapid spread of economic retrenchment throughout the world, Latin America soon became vitally affected. She was particularly vulnerable to stresses and strains in the world economy, since her export markets were located in the great industrial nations. Hence some degree of reaction in the form of restriction might have eventuated even without a stringent commercial policy elsewhere. The United States, however, increasing tariff rates markedly just when the world order was tottering, accentuated Latin American distress and resentment. This resentment had been flickering since 1922, when an earlier increase in the level of protection had occurred. In 1927, for example, Argentina was reported to resent the visit of United States Tariff Commission experts who were investigating corn and flaxseed costs.[13] The imposition of the quarantine on Argentine beef, regardless of the particular area of origin, struck home. With the passage of the Hawley-Smoot Tariff Bill of 1930, however, a number of Latin American countries revised their tariffs upward so promptly and pointedly that retaliation was evident.[14] Included in this informal campaign of retribution were Argentina, Mexico, and Cuba, along with certain other nations in Latin America.

The full force of the world-wide economic holocaust had not then registered upon Latin America, as a survey of commercial policy of 1932 reveals.[15] Tariff changes remained the principal instrument of trade control, and increases in duties became quite common. These increases were predominantly for the purpose of raising more revenue, with protection and even retaliation still secondary factors. Indeed, the tendency toward encouragement of domestic industries was manifested more frequently in lowered duties upon such essential industrial equipment as machinery. The early impact of the depression did bring trade tension, readiness to experiment, and an increase in executive discretion. Unusual activity in trade negotiation took place during 1932, this activity resulting in substantial modification of the traditional single-column policy. Preferential rates were established in several countries, and many bilateral, preferential agreements were concluded. The founda-

[13] Harry Collings, "The Tariff Controversy with Argentina," *Current History*, 27:276–277, November, 1927.

[14] See a series of notes and articles in *Business Week*, running through 1930 and 1931.

[15] U. S. Bureau of Foreign and Domestic Commerce, *Trade Information Bulletin 812*, pp. 16–19.

tion of the subsequent policy of thorough-going bilateralism and trade balancing had already been laid, although the transition from traditional policy had not yet been completed.

By 1933 or 1934, the general outlines of the new, depression-born Latin American commercial policy were clearly evident. This policy was to feature the gradual replacement of the tariff by other trade controls, as will be analyzed in subsequent chapters. Sweeping and significant changes also occurred within the tariff systems of many Latin American nations. Tariffs for revenue only were being replaced by tariffs for revenue, protection, bargaining, and other purposes. Single-column tariffs featuring at least nominal equality of treatment were replaced in part by multiple-column, preferential systems. Latin America, once accustomed to multilateral as well as direct trade, was now gripped by an urgent determination to achieve favorable trade balances. Commercial treaties, once utilized principally for most-favored-nation guarantees, now were to be utilized for duty concessions, clearing agreements, payment and compensation pacts, and outright barter. Equality of treatment was to be observed more in lip service than in actuality, as exchange control and a network of conditional pacts and special agreements largely nullified these unconditional assurances that might be extended. Tariffs, once a matter for legislative drafting, now were to be altered in many countries at executive discretion. And Latin America, once largely oblivious to intra-Latin American trade, began to establish preferential arrangements and customs unions within the hemisphere.

Protective Tariffs and Higher Rates

Tariff rates during the 1930–1939 decade were generally increased and often redesigned to achieve new purposes. Excessive dependence upon customs duties for public revenue had caused trouble in Latin America during the early 1930's. Declines in customs yields resulting from dwindling trade made servicing of loans very difficult and rendered procurement of essential imports awkward. This situation was aggravated by the fact that prices of many exported raw materials declined more rapidly than prices of imported manufactures. Europe, a vital market for many Latin American countries, adopted restrictive measures which forced similar trade restrictions south of the Rio Grande.

Partly in retaliation against United States tariff policy, partly to balance trade, and partly to build up domestic production, Latin American nations raised tariff rates to unprecedented levels after 1930. Colombia, Ecuador, Venezuela, and Bolivia, for example, imposed high import duties upon hitherto essential foodstuffs in order to stimulate local production.[16] Resultant increases in the prices of these basic products forced up the cost of living and occasioned domestic difficulties.

In many other nations an abrupt trend to protection did not occur, but local consumer goods industries were afforded protection against competitive imports. In Nicaragua, for instance, a primarily revenue tariff includes protective duties on soap, candles, cigarettes, beer, soft drinks, and ready-made clothing.[17] Such products as these, plus shoes, hats, domestic textiles, and many other varieties of light manufacturing, receive some tariff protection throughout Latin America. Such protectionism was markedly accentuated by the depression and the shortage of exchange but probably antedates these factors.

In a few countries, increases in tariff rates assumed sweeping, drastic proportions. The Mexican Tariff Act of 1930 was revised several times during the subsequent decade, each revision being in an upward direction.[18] In 1937, duties were increased on 633 items; in 1938, duties on 218 categories were raised, although some were lowered later in the year; and in 1939 and 1940, import rates were increased on many other items. During 1940 Mexico did, however, render new industrial enterprises exempt for five years from payment of import and export duties, income taxes, and stamp taxes.

Venezuela followed a similar course during the 1930–1939 decade, attempting to stimulate domestic industry by high import duties. Since 1929, there have been at least five general revisions, all but the 1936 version being in an upward direction.[19] The changes of that year also involved lowered duties on certain necessities that could not readily be procured at home.

Haiti, although long extremely dependent upon customs duties for most of her public revenue, raised rates to new levels. In addition to

[16] Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367: 121–122, February, 1941.

[17] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 15, p. 17.

[18] *Ibid.*, Section 17, pp. 29–32.

[19] *Ibid.*, Section 10, pp. 8–9.

pre-existing rates, a 1932 law established a 5 per cent surtax on all dutiable imported merchandise.[20] In 1937, this surtax was increased to 20 per cent, except on goods included in the trade pact with the United States and on like imports from other nations. By 1939, the average ad valorem rate was 50 per cent.

In some instances, customs duties were raised in order to counteract depreciation of the domestic monetary unit. Mexico imposed a 12 per cent ad valorem export tax to recapture part of exporters' profits arising from this source. Bolivia, on the other hand, levied a number of "currency depreciation" surcharges on her import levies in order to conserve exchange as prices of imported goods rose.[21] In 1936, although duties were increased on nearly all articles, surcharges of 20 to 275 per cent of initial rates applied for this reason. In 1937, these surcharges were increased to compensate for changes in the official rate; in 1938, another, higher scale of surcharges was introduced; and in 1939, although surcharges were reduced or eliminated on many necessities, they were increased on specified luxury articles. They now ranged from 40 to 950 per cent of so-called basic rates. At the same time, basic duties were substantially increased on non-essential or luxury imports. Another revision in 1940 changed some classifications but retained surcharges and most of the old duties. As the Bolivian monetary unit has continued to depreciate, such surcharges have been constantly adjusted and raised.

Paraguay, gripped by the Chaco War, repealed all rate reductions made after 1925, imposed sweeping increases in rates, and elevated duties on all products to a stipulated level.[22] In 1935, the executive was empowered to decree that 30 per cent of the duty on most products must be paid in "gold" or its equivalent in Argentine paper pesos. This resulted in general increases in duties, since Argentine paper pesos must be bought at open-market rates. By August, 1939, the proportion payable in gold had been elevated to 50 per cent in most cases and 100 per cent on gasoline. By that year, import duties were assessed on 63.3 per cent of total imports; import duties collected amounted to 26.6 per cent of the value of all imports, but 41.9 per

[20] *Ibid.*, Section 20, pp. 14–18.
[21] *Ibid.*, Section 2, pp. 5–6.
[22] *Ibid.*, Section 7, pp. 7–10.

cent of the value of dutiable imports.[23] More than half the customs revenue came from cotton textiles, gasoline, wheat flour, wheat, and artificial silk. The 36.9 per cent of imports that entered without duty consisted largely of agricultural implements and machinery needed for forestry or new industry.

Uruguay likewise made sweeping increases in tariff rates, and also insisted upon a specified proportion of duties being paid in "gold" or its equivalent in Uruguayan currency.[24] Certain necessities and raw materials were generally exempted from this stipulation, with the executive having considerable power to transfer products from one schedule to another.

Although most countries moved toward protectionism and higher rates, a few did cling to their low, revenue-raising schedules. Indeed, a handful even lowered rates during this difficult decade. Panama authorized a new, more highly protective tariff in 1932, but it was modified before it went into effect.[25] In 1935, a new tariff revision designed to stimulate tourist and entrepot trade resulted in the exemption of 600 non-competitive import commodities from duty. These goods did, however, involve a 5 per cent ad valorem consular fee on invoices. Machinery was also allowed free import. In 1937, more items were placed on the free list, rates were lowered generally, but a few items received protective duties. The current law is quite largely designed for revenue, although light consumer industries and foodstuffs do receive some protection. Rates range from 5 to 40 per cent, but usually hover around 15 per cent.

Guatemala also moved in this direction. In her new tariff effective in 1936, she made 225 changes in rates, 170 of which represented decreases.[26] Many changes in basic rates have since been made, exemptions often being granted on materials imported by domestic industry.

In several nations, reductions were authorized for specific purposes. In Brazil, for example, the basic tariff established in 1934 gave the executive power to reduce or eliminate import duties under several cir-

[23] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 43, p. 4.

[24] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 9, p. 7.

[25] *Ibid.*, Section 16, pp. 11–14.

[26] *Ibid.*, Section 13, pp. 15–19.

cumstances.[27] These included goods competing with similar goods produced in Brazil by trusts or cartels, or with domestic commodities sold at excessive prices; goods of a type not produced in Brazil and intended for regions requiring development; products needed for the development of Brazilian industry, except where producible locally; and imports needed by the Brazilian government, also unless available domestically. Many Latin American nations have similar provisions, especially concerning materials needed for industrialization or other essential development.

Declining Yields

This tendency toward protectionism and increased rates obviously undermined the revenue-raising capacity of Latin American tariff schedules. In most nations south of the Rio Grande, customs yields have declined both absolutely and relatively since the 1920–1929 decade. In many nations, new sources of revenue and increasingly prolific internal taxes have partially replaced customs duties. Nevertheless, the still appreciable dependence of most Latin American countries upon customs revenues reveals that these tariffs remain basically revenue schedules. In many instances, tariff changes have been motivated by a desire for protection, but inability of local industry to respond has mitigated the protective element and has raised internal prices.

Customs yields during 1938, the last full year before World War II, illustrate the continued but less dominant role of Latin American tariffs in the respective fiscal systems. Statistics again understate the case, since many oblique devices not labeled as customs duties are nevertheless employed to tax trade. Exchange taxes, profits taxes, port charges, consular fees, receipts of national monopolies, and similar items would swell the revenues ultimately attributable to foreign commerce. The Dominican Republic ostensibly received but 23.7 per cent of total revenue from customs duties, yet 12 per cent of total revenues came from a consumption tax on imports, 9 per cent more was derived from a cargo tax, and other internal taxes applicable largely to goods moving in foreign trade accounted for a portion of the remaining revenue.[28] The following percentages, however, include only customs, or import and export, duties.

[27] *Ibid.*, Section 3, pp. 12–15.
[28] *Ibid.*, Section 19, p. 12.

In contrast to 1924–1926, few nations now relied upon customs duties for half or more of total revenues, although Chile, Costa Rica, El Salvador, and Haiti did fall within that category.[29] Indeed, Haiti depended upon such duties for slightly over four-fifths of total public receipts. Several other nations utilized customs for two-fifths to one-half of total public revenues. Such nations included Bolivia, Guatemala, Honduras, Nicaragua, and Venezuela. Still others, such as Argentina, Brazil, Colombia, Cuba, Mexico, Panama, and Paraguay, derived one-fourth to two-fifths of their revenues from duties. Of the remaining nations, the Dominican Republic, Ecuador, and Peru all rely upon customs yields for one-fifth to one-fourth of total receipts. Uruguay's customs yields are not separately itemized, but they have been appreciable. Utilizing slightly divergent figures from other sources would result in a somewhat different grouping, but the general pattern is apparent. Contrasted with yields during 1924–1926, Latin American customs revenues are now less significant elements of the various fiscal systems; yet, contrasted with the picayune proportion of total United States revenue contributed by customs duties, the Latin American tariffs have remained prolific sources of revenue.

Changed Export Taxes

Another feature of Latin American tariff policy during the decade was a marked change in the scope, earning power, and motivation of Latin American export taxes. With the world-wide contraction of demand for export staples and cataclysmic declines in prices, export tax yields fell quite generally. Many nations whose export taxes placed their industries in an unfavorable competitive position abandoned these duties on particular products. Costa Rica exempted chicle gum, fruits, vegetables, and other garden products for a decade, and reduced the tax on coffee pending its elimination.[30] In Ecuador, the executive has

[29] These figures are from Paul Studenski, "National Revenues of Latin American Republics," *Tax Systems*, 369–382. They differ occasionally from those found in *Inter-American Statistical Yearbook, 1940*, and other sources, but are used because they usually represent actual collections rather than budget estimates.

[30] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 11, pp. 10–11.

been given wide latitude in applying, increasing, reducing, and eliminating export duties.[31] In recent years, many of these rates have been lowered or removed, although a few others have been introduced. Haiti has also occasionally reduced specified export taxes, to replace them in many cases with equivalent excise taxes.[32] She has also removed or lowered sugar and coffee export duties from time to time, in order to enable the domestic industries to compete.

World conditions and this reduction in rates are reflected in fragmentary customs statistics.[33] The proportion of total revenues yielded by export duties in various Latin American countries during 1938 include Guatemala, 13.9 per cent; Costa Rica, 6.8 per cent; Mexico, 6.3 per cent; Honduras, 3.2 per cent; Colombia, 1.5 per cent; and varying amounts elsewhere. Contrasted to export tax yields during the mid-1920's, these figures reveal a marked contraction of revenue from this source. In a number of nations, export and import tax yields were not itemized separately, but all evidence indicates that sharp declines in export tax yields have been nearly universal. In Chile, where the export tax on nitrates and iodine long provided nearly half of national revenues, the government no longer imposes this tax.

Yet export taxes have continued to be levied by the majority of Latin American nations. Many countries still have elaborate export tax systems, some of them applying quite high rates to a large number of products. Peru imposes export taxes on a large number of products, including most of her exports in terms of value.[34] Other nations still maintaining rather comprehensive systems are Mexico, the Dominican Republic, Guatemala, Costa Rica, Ecuador, Haiti, and Honduras. In Brazil, the various states continue to levy export taxes on a host of commodities, the rates varying from state to state and product to product.[35] The revenues from these taxes have declined sharply in recent years, this diminished yield occasioning considerable financial difficulty. The only export tax levied during the 1930's by the federal government of

[31] *Ibid.*, Section 6, p. 9.
[32] *Ibid.*, Section 20, pp. 18–19.
[33] Paul Studenski, *loc. cit.*
[34] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, p. 12.
[35] "Export Duties," *Brazil Trade Journal*, 1:11, July, 1941.

Brazil was on coffee, this tax being levied originally in 1931 and applied to implement the general valorization and control scheme.[36]

The scope and yield of export taxes were curtailed, and equally significant changes were occurring in the nature and motivation of these levies. Originally applied on a very simple basis and easily collected, they became vastly more complicated. In many countries, export taxes varied according to current price levels. Peruvian export taxes on minerals were to increase when New York quotations exceeded specified prices;[37] and the Dominican Republic imposed an export duty amounting to 20 per cent of the amount prices exceeded stipulated quotations at Dominican ports.[38] Chile and several other countries likewise adjusted their export taxes on a similar basis.

Many export taxes came during the 1930's to be applied to achieve protective and other non-revenue objectives. Mexico has imposed such a severe tax on the export of henequen that production and export of Mexican binder twine made of henequen has been stimulated.[39] When a tax on the export of binder twine was later imposed, the tax on the fiber was simultaneously increased. Indeed, the export tax has even been utilized on occasion to achieve preferential objectives. The Peruvian system mentioned above has also imposed additional export duties on certain products when shipped from specified ports.[40]

In the latter part of the 1930–1939 decade, export taxes were also employed to achieve broad economic, social, and political ends. In 1938, Mexico inaugurated a 12 per cent ad valorem tax on export commodities when they exceeded a certain price.[41] Some 50 per cent of the proceeds of this tax was to pay 20 per cent subsidies on essential imports, whereas the remainder was to be used for carrying out the social program of the government. This tax was also to recapture some of the profits made through currency depreciation. When a new system, subjecting 225 items to specified duties, was adopted in 1939, the 12 per cent tax was abolished on such products as silver and suspended on certain other commodities. Nicaragua also applied a special export

[36] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, p. 91.
[37] *Ibid.*, Part II, Section 8, p. 12.
[38] *Ibid.*, Section 19, p. 12.
[39] *Ibid.*, Part III, Vol. 1, p. 179.
[40] *Ibid.*, Part II, Section 8, p. 12.
[41] *Ibid.*, Section 17, pp. 34–35.

duty on bananas from a particular region, the proceeds to be used to repair damage caused by a hurricane, to improve plantations in the region, and to improve the navigability of a river in the area.[42]

Multiple-Column Schedules

Perhaps the most startling change in Latin American tariff policy during the 1930–1939 decade was the trend away from single-column schedules. During most of Latin American tariff history a single set of duties applied to all nations alike, with but a few exceptions. With the wave of trade restriction and control that swept the world in the depression years, this traditional policy was abandoned by many nations. Single-column tariffs were often replaced by multiple-column systems, designed to retaliate, achieve trade balance, or encourage special bargaining. In other nations, conventional reductions, often not generalized, broke the force of the nominal single-column rates.

A few Latin American nations maintained a single-column tariff in both form and practice. Mexico, despite her propensity toward barter and the wide discretionary powers of the executive, extended the same tariff rates to products from all countries regardless of most-favored-nation treatment.[43] Nicaragua also continued to maintain her general tariff, from which slight concessions were made in occasional trade treaties.[44] Even when concessions to France and the United States, the principal signatory nations, were extended, they encompassed but 5 to 6 per cent of Nicaraguan imports.

Other Latin American countries, reluctant to drop the form of single-column treatment, have nevertheless sabotaged the traditional policy through various devices. The Dominican Republic maintained its nominal single-column tariff during the 1930's. In 1935, however, the executive was authorized to make concessions concerning the sales, use, and consumption taxes imposed on some 250 imported products.[45] These concessions could not affect tariff rates or the last 10 per cent of sales taxes, but they nevertheless facilitated preferential treatment to certain countries.

[42] *Ibid.*, Section 15, pp. 18–19.
[43] *Ibid.*, Section 17, pp. 29–32.
[44] *Ibid.*, Section 15, pp. 15–18.
[45] *Ibid.*, Section 19, p. 11.

Uruguay also maintained her single-column tariff, but the executive was given discretionary power to increase duties and apply penalty rates.[46] More significantly, a specified proportion of import duties on certain products had to be paid in gold, which effectively raised these rates. When applied against products originating in certain countries, preferential treatment resulted. Paraguay adopted a rather similar device to achieve much the same objectives.[47]

Honduras moved tentatively away from single-column treatment and then returned. She shifted in 1938 from a single-column schedule to a triple-column system based on trade balances, but abolished the new system the following year.[48] This new system had established maximum, intermediate, and minimum rates, to be applied on the basis of the current state of bilateral trade balances. The minimum was to be equivalent to the old rates, and the executive was allowed to modify the regulations when essential goods were not obtainable elsewhere.

Many Latin American nations, however, openly shifted to multiple-column, preferential, bilateral tariff systems. In most instances, the new systems were set up to balance trade, to prevent foreign discrimination, and, of course, to mitigate the lack of exchange.

A few examples will indicate the nature of these new tariff schedules. Ecuador, which had clung to a single-column system until 1935, then established a four-column system based in part upon trade balances.[49] A rather complex maximum-minimum system was established, with conventional reductions outside this framework.

Costa Rica maintained her single-column tariff until 1939, although some conventional reductions had been made to the United States and some private compensation trade had been arranged.[50] In 1939, a differential customs surcharge of 100 per cent was placed on imports from countries in the trade with which Costa Rican imports had exceeded her exports by more than 50 per cent during the previous calendar year.

Guatemala, through decrees in 1935 and 1939, established a trade-balancing surtax of 100 per cent on imports from countries with which

[46] *Ibid.*, Section 9, pp. 6–9.
[47] *Ibid.*, Section 7, pp. 8–9.
[48] *Ibid.*, Section 14, pp. 12–13.
[49] *Ibid.*, Section 6, pp. 6–8.
[50] *Ibid.*, Section 11, pp. 9–11.

Guatemala had an adverse balance of 75 per cent.[51] Asiatic goods, without exception, were to be subject to this new duty, and other Central American nations, as well as countries selling very little to Guatemala, were to be exempted. During years when Guatemala's trade balance with many countries has been adverse, this multiple-column treatment has definitely affected the direction of her trade.

Cuba has had a three-column tariff since 1935, the new schedule being based largely upon bilateral trade balances and applicable to all nations save the United States.[52] Prior to that year, maximum rates had been merely for penalty purposes and minimum rates constituted the general tariff. Since 1935, minimum, maximum, and intermediate rates have been established. Only a few nations which had most-favored-nation pacts with Cuba before 1935, and a few imports essential to the nation's economy, are exempt from trade-balancing considerations. Surtaxes based upon trade balances can also be placed upon essential products, but this power has been very sparingly used. The United States, of course, is outside this system, and the United Kingdom receives minimum rates regardless of trade balance.

Other Latin American nations have established multiple-column systems to prevent foreign discrimination or for bargaining purposes. Colombia established a multiple-column schedule in 1936, with classification based upon both the degree of discrimination and trade balances.[53] Maximum rates are applied to countries which buy little or nothing, or which openly discriminate. Intermediate, or basic, rates are applied to countries which purchase substantial amounts and which have no special restrictions on imports or payments. Minimum rates have been extended through conventional reductions, generalized to countries with which Colombia has unconditional most-favored-nation pacts.

Brazil's three-column system has been based largely on the nature of foreign tariff treatment.[54] There are three rates—general, minimum, and a limited number of sub-minimum conventional rates, minimum rates being extended in most-favored-nation agreements.

[51] *Ibid.*, Section 13, pp. 15–18; also U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 16, p. 7.

[52] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 18, pp. 18–24.

[53] *Ibid.*, Section 5, pp. 6–8.

[54] *Ibid.*, Section 3, pp. 12–14.

Chile also applied a minimum tariff rate to all nations extending most-favored-nation treatment and has a penalty duty.[55] This duty can be levied when discrimination has been practiced, and is supplemented by changes in the free list. Simultaneously, however, Chilean compensation agreements have placed trade on a rigidly bilateral basis.

Haiti has had a three-column system based in large part upon tariff treatment, maximum, minimum, and sub-minimum conventional rates being established.[56] Maximum rates are penalty rates, minimum rates are applied to imports from nations which afford Haiti most-favored-nation treatment, and sub-minimum conventional rates are given to only those nations which have actual most-favored-nation treaties with Haiti. These conventional duties are not generalized, save in this restricted sense.

Abandonment of Equality of Treatment

It is apparent from the foregoing that equality of treatment has been eliminated by most Latin American nations, or at least circumscribed. Countries that adjust duties according to trade balances and negotiate on a strictly bilateral basis do not extend such treatment. Although legalistic equality may be extended to nations falling in a given category, this amounts to discrimination in the overall sense. A few nations have still adhered to single-column tariffs, or have generalized conventional concessions. More Latin American countries, however, have come to pursue unequal trade treatment, either in form or practice or both.[57] As indicated previously, several nations employ a general-conventional tariff, with the lowest rates not generalized, except perhaps to nations with which most-favored-nation treaties are in force. Others have maximum-minimum or maximum-intermediate-minimum tariff schedules, in which the lower rates are not widely generalized.

Although many Latin American countries negotiated pacts with nominally unconditional most-favored-nation clauses, these provisions were often illusory. Generalization of concessions is actually limited to those nations with which most-favored-nation pacts are in force, in many instances. Even such countries do not always receive all conces-

[55] *Ibid.*, Section 4, pp. 10–11.
[56] *Ibid.*, Section 20, pp. 14–16.
[57] U. S. Tariff Commission, *Report 119*, 2nd Series.

sions that may be made. Since a number of nations have established nominal unconditional most-favored-nation treatment at the same time that they have signed conditional pacts, negotiated barter and special exchange agreements, and set up exchange control, generalization of concessions has been very severely circumscribed.

New Commercial Treaties

An innovation of the 1930–1939 decade was the spectacular increase in the number and scope of commercial treaties. Such pacts had been negotiated for a century, but most of them had merely extended equality of treatment. Since the majority of Latin American nations adhered to single-column treatment, they could not well make sweeping departures through conventional reductions. Furthermore, since most tariffs were for revenue purposes and provided the fiscal bulwark of many a nation, sweeping reductions were scarcely expedient. The 1930–1939 decade, however, with its modification of the old single-column policy and the introduction of bilateralism and non-tariff controls, witnessed the wholesale negotiation of commercial treaties. Such treaties are far too numerous and extensive to describe in detail, but a few general observations will suffice.

These treaties were noteworthy primarily for the wide variety of provisions contained therein. A study of the more important bilateral conventions, treaties, and notes negotiated between 1931 and 1939 reveals this fact with some clarity.[58] Eighty-nine treaties contained most-favored-nation provisions, 59 of them applying to tariffs only, 3 to quotas and exchange control only, 23 to both, and 4 with details missing. Twenty-seven pacts applied to exchange control, 7 dealing with the use of proceeds from reciprocal trade, 11 with the allocation of exchange for imports, 2 with the stabilization of exchange rates, and 7 with other matters. Twenty-four treaties dealt with quota provisions, 11 applying to general provisions, 4 to specific provisions, 5 to both, 2 dealing with other matters, and 2 with details missing. Twenty-seven agreements involved tariff rates and provisions, which was a relative innovation. Two also dealt with inter-governmental cooperation in

[58] Richard Snyder, "Commercial Policy as Reflected in Treaties from 1931 to 1939," *American Economic Review*, 30:788, December, 1940.

trade relations, 10 provided for the bilateral balancing of trade, and 3 were solely concerned with clearing and payment accords.

The same bewildering variety is illustrated by the experience of nations selected at random. In the 1929–1938 period, Ecuador negotiated treaties involving tariff concessions, most-favored-nation assurances, import quotas, and compensation, clearing, and exchange provisions.[59] During that same period, the Dominican Republic signed pacts with Spain which provided for partial most-favored-nation treatment, duty concessions, quotas, and reduction in sales, use, and consumption taxes.[60] That nation likewise negotiated a treaty with France involving duties, quotas, government purchases, and partial unconditional most-favored-nation treatment.

These treaties of the 1930–1939 decade were also unusual in that they dealt more heavily with intra-American trade than had been the case in the past. A very large proportion of the treaties negotiated in Latin America during the 1930's were with neighbors south of the Rio Grande, with the United States, or with Canada. Concessions to adjacent countries also became rather common, and customs unions were inaugurated or strengthened. Cuban–United States preferential arrangements were bulwarked by new pacts; virtual free trade was established in some parts of Central America; commercial ties in the River Plate area were strengthened; and many frontier arrangements were concluded in South America.

Executive Discretion

Another interesting tariff tendency in Latin America during the 1930's was the development of executive power over rates and general commercial policy. Such power had been jealously husbanded by legislative bodies prior to 1930, although executive discretion had been authorized in a few countries. During the 1930–1939 decade, however, emergency power to negotiate treaties, raise or lower rates, place articles on the free list, apply penalty rates, and impose non-tariff controls was given to many executives. Authorizations, however, tended to be more sweeping and imposing than the actual use of such power. In some

[59] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 6, pp. 11–12.

[60] *Ibid.*, Section 19, pp. 12–14.

instances the authorizations were removed before they could be invoked; in other nations executives were cautious; and in still other countries, the functioning of non-tariff controls made such discretionary action unnecessary.

Prior to World War II, with its new emphasis on executive power and discretion, even authorizations were usually limited and circumscribed.[61] Specific powers granted to the executive by the legislature to put duty reductions into force have been few in number. This absence of executive authority was in harmony with past tariff history, since tariff bargaining has not been an integral part of Latin American tariff policy. Such powers as have been accorded have usually been limited in scope and duration, and they have often been allowed to expire without renewal. In practice, however, it has usually not been difficult for the executive to get the consent of the legislature to such tariff pacts as have been concluded.

The purposes of such executive discretion, according to legislative decree, are interesting. They include[62] forestalling local scarcity or public distress; fostering new industrial enterprises; encouraging bargaining and equal treatment by foreign countries; exempting necessities; adjusting duties to offset currency depreciation; encouraging purchases by tourists; combating excessive prices; and fostering regional development.

In a few countries, of course, the executive took over virtually complete control of tariff and commercial policy during the 1930–1939 decade. This has been true in Paraguay, Bolivia, Peru, and Ecuador, although in some instances the assumption by the executive of legislative functions has been temporary. In the spring of 1936, the Peruvian executive was empowered to put a legislatively drafted tariff law into effect, subject only to periodic reports to Congress.[63] In the fall of that year, Congress voted its own dissolution and delegated full legislative powers to the executive. Although this complete power was terminated in 1939, the executive retained the right to alter import duties without limit, subject only to report. In 1940, the executive was required to act with the advice of the Tariff Board.

[61] U. S. Tariff Commission, *Regulation of Imports by Executive Action*, pp. 2, 11–15.

[62] *Ibid.*, pp. 14–15.

[63] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, pp. 9–10.

Impact of World War II upon Latin American Tariffs

The second World War, with curtailed European trade, shipping shortages, and profound maladjustments, has brought new changes in Latin American commercial policy. The effect of the war upon tariffs will be discussed in this chapter, and its repercussions upon exchange control and other non-tariff devices will be analyzed in succeeding chapters. Probably the outstanding features of Latin American tariff policy since September, 1939, have been diminished customs revenue; widespread revisions of tariff rates; re-orientation of trade policy from Europe toward the United States; and the emergence of intra-American tariff integration and customs unions.

Dwindling Customs Revenues

Customs revenues fell off markedly during 1940, especially after the fall of France, and in those countries most sharply oriented toward Europe. These declining revenues accentuated exchange shortages and impelled further non-tariff controls. In 1941, although customs revenues south of the Rio Grande continued to decline over pre-war years, partial readjustment had been achieved as heavy United States imports eased the situation in many countries. The year 1942 brought heavy purchases by the United States, but it also witnessed shipping shortages, priorities, and other wartime restrictions to the movement of trade. Hence many nations whose customs revenues were beginning to expand again in 1941 were plunged into new difficulties.

Revenues for 1940, the first full calendar year of war, are illustrative of the general tendency throughout Latin America. These figures reveal the proportion of total revenues produced by customs duties, but they do not include consular fees and other oblique forms of taxation.[64] They probably minimize the actual impact of the war, since absolute yields often declined more sharply than proportionate yields. Nevertheless, they do reveal the effect of the conflict early in the war, espe-

[64] Paul Studenski, *op. cit.*, p. 371. Figures for Ecuador were taken from *Inter-American Statistical Yearbook, 1940*, p. 521; those for Argentina from U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 55, p. 10. Paraguayan figures are for 1939, the 1940 statistics being unavailable. Uruguay does not itemize customs receipts separately.

cially in those areas formerly drawn toward Europe. In 1940, only two nations of Latin America—Haiti and Bolivia—earned more than 50 per cent of total receipts from customs duties. Bolivia's heavy exports of tin were the mainstay of her economy and the bulwark of her foreign trade during that year. Haiti, of course, has long relied upon customs duties for three-fourths to over four-fifths of total revenues, and 1940 was no exception.

Six countries received two-fifths to one-half of total receipts from this source. They were Costa Rica, Guatemala, Honduras, Nicaragua, El Salvador, and Venezuela. Note that all these nations are located in the Caribbean region and basically oriented toward the United States. Six other countries, Argentina, Colombia, Cuba, Mexico, Panama, and Paraguay, procured one-fourth to two-fifths of their aggregate revenue from customs. The remaining nations, namely Brazil, Chile, the Dominican Republic, Ecuador, and Peru, obtained one-fifth to one-fourth of their total receipts from duties. Obviously the effect of World War II upon Latin American fiscal systems was very severe. Although there was partial recovery in 1941, subsequent progress of the war accentuated the contraction of Latin American customs revenues.

A general decline in customs revenue still plagued many nations in 1941, although conditions were vastly improved over the preceding year. This decline was not yet balanced for budget purposes by increases in other, or direct, taxes.[65] Treasury deficits rather than surpluses continued through much of 1941, especially in those areas which had not yet recovered from the curtailment of European markets. Yet fewer countries were in this unenviable position during 1941, and revenues in those nations oriented toward the United States continued relatively high.

Customs provided 79.7 per cent of Haiti's revenue during the fiscal year ending September 30, 1940, almost identical with the previous fiscal year.[66] The budget of the Dominican Republic for 1941 called for 24.2 per cent of the total revenue from this source, which was very similar to the preceding two years.[67] The El Salvadoran 1941 budget

[65] William La Varre, "U. S. Absorbing Increased Portion of Latin American Exports," *Foreign Commerce Weekly*, 4:7, July 19, 1941.

[66] "Haiti's Commercial and Financial Situation—Fiscal Year 1940–1941," *Bulletin of Pan American Union*, 76:294, May, 1942.

[67] The following 1941 statistics are from "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:107–314, April–May–June, 1941.

called for 50.7 per cent from customs duties, which represented a slight increase over the 1940 budget estimates. The 1941 budget of Colombia specified 42.4 per cent from import duties, which was well in excess of 1940 and slightly under actual revenues in 1939. The 1940–1941 Venezuelan budget provided for 36.9 per cent of total revenues originating in customs. This represented a slight increase over actual collections in the two preceding fiscal years. Chilean budget figures for 1941 anticipated 27.2 per cent of the total revenue from import duties, which was less than in preceding years. Argentine customs collections declined sharply in 1941, import duties bringing 21 per cent less revenue than in 1940, export duties 66 per cent less, port duties 16 per cent less, and total customs collections declining 20 per cent.[68]

Fragmentary statistics for 1942, however, reveal the cumulative influence of United States priorities, conversion of industry to war production, and acute shipping shortages upon this vulnerable source of revenue. Yet, although the impact of the war hit Latin America hard in 1942, customs revenues continued to be important bulwarks of many fiscal systems. In many countries, other sources of revenue could not be exploited rapidly enough to take up the sudden slack.

The 1942 Cuban budget called for 28.1 per cent of the total revenues to originate in customs,[69] and the 1941–1942 Venezuelan budget anticipated 27 per cent from this source.[70] The latter figure, however, was well below 1940 receipts. Actual collections throughout Latin America were below those anticipated in these and many other budgets. Panama and a few other nations collected ample customs receipts in the first half of the year, but suffered declines later.

Rate Revisions

Frequent revisions of rates have also characterized many Latin American tariff systems during World War II. The early stages of the war occasioned such extreme maladjustments in Latin America that trade

[68] William Raleigh and Eugene Ysita, "Annual Economic Survey of Latin America, 1941, Part I," *Commercial Pan America*, 11:64, April–May–June, 1942.

[69] "Cuban Government Finance," *Foreign Commerce Weekly*, 5:15, December 6, 1941.

[70] "Venezuelan Budgets for 1941–1942," *Foreign Commerce Weekly*, 5:21, October 11, 1941.

restrictions were strengthened.[71] In those nations oriented to some appreciable degree toward Europe, duties were raised in order to conserve available exchange. In May, 1940, Peru increased import duties on sixty-one items, largely luxuries or articles on which the duty was considered low and which required large amounts of foreign exchange.[72] The United States was the principal supplier of twenty-six of these products and was interested in fifty-five of them.

Some countries, such as Honduras, raised customs duties a bit in order to facilitate wartime domestic development or military defense. That Central American republic imposed a one per cent ad valorem duty on all imports for the construction of national highways.[73]

The tide receded, however, in 1941 and 1942. Along with easing of restrictive exchange control and import quotas came a number of tariff reductions.[74] Uruguay provided for the free admission of certain staples widely consumed, this free entry being limited to specified amounts. The executive was also given power to reduce or remove duties on necessities if scarcity or price inflation threatened. Paraguay reduced duties on a wide range of articles, in order to keep down the rapidly rising prices of import staples. Chile charged its Commissariat of Subsistence and Prices with direct control of production and foreign trade in certain textiles, to check mounting clothing prices. A number of countries allowed machinery to enter duty free, in order to encourage wartime expansion of domestic industry. Peru, however, increased import duties on most non-food products by 20 per cent and also increased export taxes. The motive was not merely to provide additional revenue but also because Peruvian duties had been largely specific. Hence, when the exchange value of the Peruvian monetary unit fell again, revenue dwindled.

Changed Policy toward United States

A third effect of World War II has been the re-orientation of Latin American commercial policy toward the United States. With the fall

[71] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 6, pp. 9–12.

[72] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, p. 9.

[73] *Ibid.*, Section 14, p. 13.

[74] This analysis of developments in 1941 is taken from Henry Chalmers, "Trade Policies of Foreign Countries during 1941, Part III: Latin America," *Foreign Commerce Weekly*, 6:8–9, 33–34, January 31, 1942.

of France, most of the great European markets were virtually eliminated from Latin American trade. By January, 1941, the United Kingdom was about the only non-hemispheric market and import source left open. With this elimination of most European countries, as well as Japan, from the scene, many commercial policies previously oriented toward those countries were revised. A host of bilateral pacts, special exchange agreements, and other preferential devices became inoperative. Commercial policy, therefore, came to be slanted toward the United States, although the United Kingdom has remained a potent factor in some Latin American markets. Pacts with Argentina and other Latin American nations not previously signatory to trade agreements indicate this drift. This new importance of the United States has been bulwarked by purchase agreements, development projects, and similar devices.

Growth of Customs Unions

Perhaps the most interesting aspect of the wartime re-orientation of Latin American tariff policy has been the accentuation of intra-American integration. The years following 1939 have witnessed an unprecedented number of pacts among Western Hemisphere nations.[75] Many of these have been between countries not physically adjacent, such as those treaties or notes between Argentina and Cuba, Venezuela and Chile, and several other pairs of nations. Still other agreements have been between such Latin American nations as Argentina and Chile, on the one hand, and Canada, the dominion apparently becoming increasingly interested in the nations to the south. More significantly, the customs union is becoming a firmly entrenched concept in Latin America.

Agreements between neighboring countries were not uncommon during the 1930's, as indicated by the Peruvian-Colombian pact of 1938.[76] In that agreement, a joint regional tariff was established in stated Peruvian and Colombian frontier zones.

Arrangements of this type were encouraged when the Inter-American Financial and Economic Advisory Committee, meeting in late 1941, took action on a proposal to promote trade between contiguous coun-

[75] See notes in *Foreign Commerce Weekly*, since its inception.

[76] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, p. 10.

tries.[77] The action of the Committee was based upon a resolution adapted by the Seventh International Conference of American States, which had recommended study of a contractual formula involving exclusive commercial advantages by neighboring nations. The Committee recommended such preferences, if established in such a way as to facilitate the sound promotion of trade. Specifically, such arrangements should include three elements: trade agreements embodying tariff reductions or exemptions; reservation of the right to reduce or eliminate customs duties on like imports from other countries; and continued effort toward broader economic reconstruction. The ultimate object, it was stated, is the reduction of tariffs generally and the scaling down or elimination of trade preferences. The Committee obviously regards regional pacts not as an end in themselves, nor as a species of autarchy, but as interim steps toward a broader, long-range objective. Most recent pacts concluded by Latin American countries, however, have provided that such concessions to contiguous countries or customs unions would not necessarily be generalized. Development of regional customs unions in Latin America is apparently still in the interim, transitionary stage.[78]

The increasing interest in intra-Latin American regionalism is demonstrated by the pacts concluded since the outbreak of World War II. In a single year, to take 1941 as an example, trade treaties were concluded between Argentina and Bolivia, Argentina and Brazil, Brazil and Paraguay, Colombia and Venezuela, and between such non-contiguous areas as the United States and Argentina, the United States and Cuba, and Cuba and Argentina.[79]

Three customs unions have thus far appeared on a relatively well-defined basis in Pan America. First, the United States and Cuba have long constituted a variety of customs union. This arrangement, however, has been discussed in considerable detail in earlier chapters, and further elaboration at this point is scarcely required.

A second customs union involves the small republics of Central America, although they have never attained the long-agitated goal of political

[77] "Tariff Reductions between Contiguous Countries," *Bulletin of Pan American Union*, 76:671, November, 1941.

[78] For a competent analysis of the scope and significance of economic regionalism in South America especially, see John Campbell, "Nationalism and Regionalism in South America," *Foreign Affairs*, 21:132–148, October, 1942.

[79] William Raleigh and Eugene Ysita, *op. cit.*, p. 52.

unity. El Salvador, Guatemala, Honduras, and Nicaragua constitute this loosely knit customs union. El Salvador has a reciprocal free-trade agreement with Honduras, applying to all products save coffee, hides, and cigarettes.[80] She has a virtual free-trade agreement with Guatemala, encompassing all goods save coffee, sugar, tobacco, and government-controlled articles.[81] Cotton from El Salvador and lumber from Guatemala, each consumed in the other country, are prominently involved. El Salvador has also granted other Central American countries not only minimum-column treatment but also preferential reductions of 10 to 90 per cent on a number of products and free entry on others.[82] Minimum rates have also been granted, by legislative decree, to several other Latin American nations.

Guatemala has also extended preferential reductions, amounting to 45 to 62 per cent in certain products, to other Central American states.[83] Other articles are afforded free-entry status. Such preferences are gratuitous, and have not until recently been incorporated in formal trade agreements. Nevertheless, although Nicaragua extends free entry to products from Guatemala, a reciprocal free-trade pact signed in 1924 is still not in force in Guatemala because it has never been ratified by her legislature. This partial, rather haphazard customs union is significant because it has set a precedent. The actual trade involved is relatively small, since most of these countries produce similar products and are predominantly concerned with more distant markets.

From the standpoint of potential importance, the fledgling River Plate customs union involving Argentina, Brazil, Bolivia, Paraguay, and Uruguay is perhaps the most significant of these customs unions. It is surely one of the most significant developments of post-1939 Latin American tariff policy. Although some preferences had been extended by individual countries prior to that year, the major impetus toward a more formal customs union was the First River Plate Economic Conference. This conference convened in Montevideo early in 1941, and dele-

[80] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 12, pp. 12–13.

[81] "New Guatemalan-Salvador Trade Agreement," *Foreign Commerce Weekly*, 5:15, November 29, 1941.

[82] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 12, pp. 12–13.

[83] *Ibid.*, Section 13, p. 18.

gates attended from the nations mentioned above.[84] Chile, Peru, and the United States also sent observers. The purpose of the conference was to study the possibility of forming a customs union, although the immediate objectives were to facilitate economic cooperation and improve river transport.

Resolutions included an endorsement of a regional customs union and a proposal for bilateral treaties by Argentina, Brazil, and Uruguay with Bolivia and Paraguay. Among the draft conventions were three of predominantly economic significance. Argentina, Brazil, and Uruguay renounced for a decade any recourse to the most-favored-nation clause in the case of any special concessions granted by any one of them to the inland nations. Preferential treatment was to be accorded shipments to or from Bolivia and Paraguay, by rebates on land, river, and air freight rates. Bilateral agreements concerning foreign exchange were also prepared for subsequent consideration and possible adoption.

This conference provided the impetus for a series of bilateral pacts among these nations, in accord with the common decision to proceed on a bilateral basis. These pacts included a host of items besides tariff reductions, as exemplified in the series of agreements negotiated in June, 1941, between Brazil and Paraguay.[85] A group of ten pacts included the establishment of a free deposit warehouse in Santos; local free trade between border towns; study of navigation problems on the Paraguay River; the groundwork for a general treaty of commerce and navigation; credits to allow purchase of Brazilian pedigreed cattle; exchange of experts and technicians; exchange of central bank credits; and the building of a connecting railway.

By all odds the most important outgrowth of the River Plate Conference was the November, 1941, treaty between Brazil and Argentina.[86] This pact was officially negotiated for the purpose of establishing "in progressive form · · · a customs union · · · between Argentina and Brazil." This agreement involved duty-free import of new industrial goods for ten years; a mutual promise not to introduce new duties on Argentine and Brazilian goods now produced on a small scale; and

[84] "The First Rio de la Plata Economic Conference," *Bulletin of Pan American Union*, 75:300–330, May, 1941.

[85] "Ten Conventions Signed by Brazil and Paraguay," *Bulletin of Pan American Union*, 75:661–662, November, 1941.

[86] "Brazilian-Argentine Treaty Strengthens Hemisphere Defense," *Foreign Policy Bulletin*, 21:2–3, November 28, 1941.

assurances that duties on each other's major non-competitive goods would be gradually reduced or eliminated. This general agreement followed earlier, partial agreements between the two nations. These earlier pacts had involved the opening of special credits in the respective central banks for purchase of each other's surplus goods. It was hoped by both governments that the new treaty would not only encourage the interchange of goods within the region, but would also facilitate industrialization by creating a larger, unified Argentine-Brazilian market. The Brazilian concessions of this treaty were later generalized, in so far as applicable, to the United States and all other nations with which Brazil has unconditional, unlimited, most-favored-nation agreements.[87]

A number of other, more grandiose customs unions have been suggested. These include North American customs union, Western Hemisphere free trade, and similar proposals. These will be briefly discussed in the chapter dealing with inter-American cooperation.

Conclusion

Prior to the 1930–1939 decade, Latin American tariff policy followed a rather simple, consistent pattern. Most tariffs were designed to yield revenue rather than protection, featured moderate export taxes as well as import duties, and were single-column or autonomous in form. Such a policy was feasible for an area exporting raw materials in an era when the markets of the world remained open. With the depression following 1929, however, world trading was disrupted, export prices fell, and European nations adopted preferential bilateralism. Hence traditional Latin American tariff policy was sharply modified. During the 1930–1939 decade, rates were revised, usually in an upward direction and in an effort to achieve protection as well as revenue. Export taxes declined in yield and relative importance, although now more complex and utilized to achieve a number of non-fiscal objectives. Traditional single-column schedules were replaced by multi-column schedules, often based upon trade balances or foreign discrimination. This new complexity was augmented by the growth of commercial treaties, conventional reductions, and executive discretion. An incipient tendency toward special concessions among Latin American nations had also appeared.

[87] "Brazilian Customs Concessions of Treaty with Argentina Extended to Most-Favored-Nations," *Foreign Commerce Weekly*, 9:16, October 3, 1942.

With World War II, further changes appeared in Latin American tariff policy. Customs revenue dwindled in some areas, although this source continued to be a fiscal bulwark in most of Latin America. Although tariff rates were increased early in the war to achieve a favorable trade balance, conserve exchange, or promote industrialization, rates were gradually revised downward in many nations. The elaborate machinery of preferential bilateralism erected during the 1930's was largely inoperative under war conditions, with most trading nations cut off from Latin America. The United States, through the Reciprocal Trade Agreements Program and non-tariff cooperation, achieved new stature as reflected in Latin American trade policy. The movement toward intra-Latin American preferential treatment was given added impetus by the war, as manifested by such customs unions as that established in the River Plate area.

Chapter 13

LATIN AMERICAN EXCHANGE CONTROL

SINCE THE early 1930's, exchange control has dominated the foreign economic policy of many Latin American nations. Such control consists, of course, in regulation of the volume of foreign exchange or purchasing power that may be used for various purposes. It influences imports, capital movements, interest and dividend payments, service payments, and all other transactions involving access to foreign exchange. Although Caribbean countries have been little concerned with this device, nearly all South American nations have utilized it to determine the volume, composition, and channeling of trade. Since 1931, and especially since inauguration of a new system in 1933, exchange control has been the keystone of Argentine trade policy. Since 1937, such regulation has come to dominate the trade and financial policy of Brazil as well. Chile early adopted an elaborate form of exchange control, bulwarked by special exchange agreements and barter, that rendered tariffs more or less superfluous. Throughout the areas of Latin America dominated or heavily influenced by Europe, exchange control has come partially to replace as well as supplement the older instruments of trade policy. The rapid spread of exchange regulation is probably the most spectacular feature of Latin American commercial policy during the 1930–1939 decade.

Origins of Latin American Exchange Control

Exchange control can scarcely be placed in proper perspective until the underlying factors which produced this innovation are explored. Regulation of the exchanges has been but the symptom of deeper maladjustments in the Latin American and world economies. It is a manifestation of strains and stresses, although such control may have also

perpetuated or even accentuated these motivating factors. Exchange control, especially as evolved in Latin America, has clearly been a defensive mechanism.

The dates on which exchange control was established in the various nations of Latin America indicate that this device was an outgrowth of the world-wide economic crisis of the early 1930's. In seven nations, control was first authorized in the July–November period of 1931; in three countries, during 1932; and in the remaining trio of nations, in 1934, 1935, and 1939.[1]

The fundamental maladjustments involved were primarily financial and economic, although accentuated by the rapid growth of nationalism. Financial difficulties included the excessive burden of foreign debt, the shortage of exchange reserves, lack of confidence in the currency at home and abroad, the sudden withdrawal of capital, and the exodus of gold. Even these troubles, however, were largely an outgrowth of the economic disequilibrium that had gripped Latin America. Factors in this unbalanced condition were the drastic curtailment of export markets, the collapse of prices, imposition abroad of quotas and like controls, and cumulative disintegration of the pseudo-world order of the post-war era.

The basic factors at work are readily apparent in Argentina and Brazil, both of these nations having placed great reliance upon exchange control. These two countries had adjusted their post-World War I balance of payments to involve heavy capital imports and the maintenance of existing price levels for export products.[2] Hence, they were especially vulnerable to any unusual deflationary movement originating elsewhere in the world. They were bound by past borrowing to pay fixed amounts of monetary units abroad, but, when world price levels declined and markets dwindled, the value of their exports fell precipitously. This led to inadequate foreign balances, a deficiency which was made good by heavy gold losses and ultimate suspension of the gold standard. Argentina suspended the gold standard in December, 1929; Brazil in November, 1930. When further curtailment of world markets, continued decline in prices, and the growth of European bilateralism were

[1] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Supplement, pp. 13–42.

[2] See Lawrence Smith, "The Suspension of the Gold Standard in Raw Material Exporting Countries," *American Economic Review*, 24:430–449, September, 1934.

superimposed upon this shaky financial structure, exchange control was established.

Several other Latin American nations experienced a similar evolution. In many instances, countries pegged their currency to the pound, the franc, or the dollar, only to find that the "base" nations had left or were about to leave the gold standard. A few nations held out for a time, but finally failed to swim against the tide and also instituted exchange control. Venezuela, for example, was in a strong position early in the 1930's, possessing few foreign debts and a strong treasury balance.[3] Competition with depreciated currencies, however, eventually forced the bolivar to appreciate and placed Venezuelan commodities at a very pronounced price disadvantage. As a result, a variety of exchange control was instituted in 1934.

Scope and Mechanism of Latin American Exchange Control

Generalizations concerning the nature or operation of Latin American exchange control systems are exceedingly hazardous, since the various nations have employed this device erratically and in divergent degree. Foreign exchange control has been a more or less opportunist form of regulation. It has varied with the progress of Latin American foreign trade and the amount of exchange that has been available.

For example, exchange control was first instituted in Ecuador during 1932; suspended in 1935; reintroduced in 1936; suspended again in 1937; and reinstated in 1940.[4] A number of other countries, although nominally employing control over a period of years, have actually varied the stringency of regulation so markedly that virtually new systems have resulted. The degree of freedom permitted in any country usually depends upon the level of world price of the nation's staple commodities, as well as the scope of remaining markets. When primary prices started falling in the middle of 1937, a general tightening of Latin American exchange control soon followed.[5] In cases where foreign debts had been suspended early in the depression and were resumed in 1936 or 1937, another stoppage of transfer resulted.

[3] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, pp. 9–11.

[4] *Ibid.*, Section 6, pp. 9–11.

[5] League of Nations, *Report on Exchange Control*, pp. 15–16.

Not only have given nations altered their control systems periodically, but various nations have also diverged as to the scope and severity of their systems. The nations of South America, in large part oriented toward Europe, have introduced some variety of exchange control in nine of ten instances. Peru was the sole exception, but even that nation has employed a form of mild exchange stabilization from time to time.[6] Countries located in Central America and the West Indies, however, have established exchange control in only four cases. Even these systems have been relatively mild, as revealed in the simple and generous controls exercised by Honduras and Cuba.[7]

Some nations have exerted merely nominal or partial control; others have instituted comprehensive systems of impressive and baffling proportions. During much of the 1930–1939 decade, Chile maintained six different exchange rates.[8] These included official, export draft, free, d.p. (personal funds), compensation "A," and private compensation. Few nations have so bulwarked and circumscribed their exchange control systems with compensation, payment, and clearing agreements, as well as with quotas, barter, and other devices.

A brief summary of the various exchange control systems, as of February, 1939, reveals this diversity.[9] At that time, just before the outbreak of World War II, eleven countries actively employed control; one had abandoned it; one employed it nominally; and seven had never established such a system. In eight of the eleven nations actively employing control, the general outlines of the system as well as the details had changed at least once since official inauguration. A "free" market usually existed where exporters could dispose of some of their proceeds at higher than official rates. The percentage of exchange proceeds from exports that had to be delivered to authorities at the official rate varied. In Argentina, this proportion was 90 per cent, subject to change and minor exceptions such as exports to neighboring countries. Brazil, Costa Rica, and Honduras required 100 per cent delivered at official rates and with very sparing exceptions. Colombia insisted on 100 per cent, with certain exceptions; Nicaragua required 100 per cent,

[6] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, pp. 10–11.

[7] *Ibid.*, Section 14, p. 14; Section 18, pp. 25–26.

[8] *Ibid.*, Section 4, pp. 11–14.

[9] This summary is taken from *Inter-American Statistical Yearbook, 1940*, pp. 480–481. See Appendix of this book, Table 37, p. 429.

with many exceptions; Paraguay authorized 100 per cent but actually required 60 to 70 per cent; and Venezuela asked 100 per cent, applicable to subsidized products. Venezuela, however, offered such good rates as to attract export proceeds voluntarily.

In some nations, the rate at which exchange could be bought or sold has been established by act or decree. In other instances, rates have been determined from time to time by central banks or quasi-public agencies. In several nations, a large number of rates have been established according to the products involved, or the country of origin, or both. In many cases, however, rates have not been discriminatory but exchange has been apportioned to the different imported commodities and various supplying countries. In seven nations, import licensing, or the requirement of prior imports before importers could obtain necessary exchange, was in force at that date. Even in those nations ostensibly not requiring such licensing, the authorities have been able to influence the general scope, composition, and direction of foreign trade. When governments could utilize exchange rates and allocation to dictate what products could be imported and from what sources, tariffs became largely superfluous.

Discrimination through Latin American Exchange Control

Discrimination is the very essence of exchange regulation. When a government agency or bank decrees different rates for various products or countries of origin, discrimination is obvious and undisguised. Likewise, when rates are constant but certain nations or products are given consistent preference in the allocation of exchange, discrimination is readily apparent. Even those systems which do not explicitly establish rigid scales of preference, however, must eventually make decisions that amount to discrimination. Brazil has given preference to imports for government purposes and funds for Brazilian travelers, but otherwise her system has not openly discriminated against commodities or nations.[10] When there has not been enough exchange to meet all demands, however, the central bank has had to accept some applications and reject others. Thus, Brazil has had an implicit schedule or scale of values, even though flagrant, official discrimination has not been an in-

[10] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, pp. 17–20.

tegral part of her policy. The special exchange agreements also negotiated by Brazil further diverted exchange in a bilateral, preferential direction.

Most nations that have developed mature control systems have come to establish an explicit basis for any discrimination that may be necessary. Exchange control has been utilized to achieve three major purposes, as well as several incidental objectives. The three major purposes are distinguishing between necessary and unnecessary goods and services, enforcing bilateral trading to achieve favorable trade balances, and, on occasion, affording protection to local producers.

During most of the 1930–1939 decade, the essential task of most Latin American exchange control systems was to discriminate between various types of imports. Essential imports were either given low, official rates or were given preference through the allocation of scarce exchange. Other categories of imports or payments abroad were given the requisite licenses or exchange only at a premium. Certain commodities, particularly luxuries or goods readily produced at home, either involved the payment of prohibitive rates or were simply not allocated exchange. Remittances of funds abroad, usually debt payments or capital movements, were also fitted into a priority schedule. Often government obligations were serviced at the official rate, whereas private debts or dividend payments were serviced at higher rates in the free market. A clear-cut example of this type of priority has been the system established by Paraguay.[11] She has afforded preference to government requirements, followed by essential imports, ordinary imports, and finally luxury goods, in that order.

As exchange control systems matured, however, and as bilateralism became an integral part of commercial policy, classifications based solely on commodities became rare. After all, several countries might be able to ship the permitted quantity of a certain category of imports. The decision among these nations would have to be made on the basis of some sort of principle or rule. Hence, discrimination as to country of origin, which had been implicit, became explicit and a basic part of exchange control policy. When this discrimination was supplemented by clearing, payments, and compensation agreements, trade began to move on a strictly bilateral, preferential basis.

[11] *Ibid.*, Section 7, pp. 10–12.

In 1940, for example, the exchange control agency of Venezuela set up a priority scheme which had been implicit in the system for some time.[12] This system was based largely upon commodity or payment preference rating, exchange being allotted to government payments, strictly commercial payments, payment of interest or dividends on foreign capital, and all other demands for exchange, in that order. Banks were also ordered, however, to give preference to imports from countries with which the Venezuelan trade balance was favorable or least unfavorable. Costa Rica, Uruguay, and several other nations have likewise supplemented a commodity priority schedule with a country of origin scheme based on trade balancing. This balancing aspect has been especially significant during those years when exchange has been very scarce. In 1938, an adverse Uruguayan trade balance with the United States virtually prevented United States exporters from obtaining quotas under controlled exchange.[13]

Chile and Argentina have probably carried trade balancing farthest in their exchange control mechanisms, even disregarding special agreements. Chile has utilized a commodity preference scale, giving special treatment to raw materials for national industries, manufactured goods of prime necessity, and drugs and medicines.[14] When such imports can be obtained from several different nations, preference is extended to those countries which purchase the largest portion of Chilean exports. There is marked discrimination between countries. A particular commodity may have several rates, depending upon the country of origin; and whereas certain countries get most of the exchange they need, others get none at all. With at least six rates generally applicable and a host of subrates, the Chilean system has been almost incredibly complex and preferential. The fabric of special compensation, payments, clearing, and barter agreements has been so extensive as to compound this complexity and discrimination. The Chilean system of exchange control has been so devoted to preferential bilateralism that no tariff policy that might have been adopted could have assured equality of treatment.

Argentina's exchange control system has also been based on open discrimination between countries, preference usually being based on

[12] *Ibid.*, Section 10, pp. 10–11.
[13] *Ibid.*, Section 9, pp. 12–13.
[14] *Ibid.*, Section 4, pp. 11–14.

bilateral balancing considerations.[15] During the 1933–1941 period, when prior exchange permits were required for all imports, the preference schedule became sharply defined. There were these main elements of exchange policy:[16] first, to limit total imports as far as possible to exchange arising from Argentine exports; second, to prohibit import of articles considered unnecessary or that could be produced domestically; third, to favor blocked-currency countries in the allocation of exchange for those imports allowed entry; fourth, to restrict definitely all imports from the United States and other free-currency countries, if substitutes were obtainable from Great Britain or any other country with which there was a comparable exchange arrangement.

The Minister of the Treasury, in presenting an exchange program to Congress, stated that there were three zones involved, each receiving separate treatment. These zones included countries utilizing the pound sterling and other blocked currencies as a result of clearing treaties; nations, such as the United States, utilizing free currency; and neighboring republics whose trade is subject to different types of exchange control. Nations in the first zone were to receive foreign exchange by utilizing blocked balances; imports from countries in the second zone were to be severely curtailed; and special arrangements to encourage trade with nations in the third zone were to be devised.

A third type of discrimination has been in favor of domestic industries. In formulating commodity or payment priority schedules, imports which could readily be replaced domestically have been discouraged. These imports must either be purchased at higher rates or not receive an adequate amount of exchange. On the contrary, those raw materials and industrial machines needed by the embryonic domestic industries are often imported duty free, at low rates, and with no allocation difficulties.

Certain exchange control systems discriminate not only in favor of domestic producers but also specifically on behalf of national monopolies or government-sponsored companies. In Chile, for example, a government-sponsored company for the distribution of petroleum and petro-

[15] This is the prevailing theme of Virgil Salera, *Exchange Control and the Argentine Market.*

[16] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 55, pp. 10–11.

leum products has often obtained foreign exchange at the official rate.[17] This rate has usually been some 20 to 25 per cent below that accorded foreign petroleum companies.

Special Exchange Arrangements in Latin America

A host of bilateral clearing, payments, and compensation agreements have arisen from Latin American exchange control. These pacts have accentuated the preferential, bilateral, trade-balancing nature of general commercial policy during the 1930–1939 decade. In many instances, such arrangements were merely the logical extension and formal statement of preference schedules already established. Many Latin American nations were also forced to negotiate such agreements because they were susceptible to economic pressure by the great European powers.

Clearing agreements have not been general in Latin America, but they have been used by such nations as Argentina, Brazil, Chile, and Colombia.[18] Several other countries negotiated virtual clearing arrangements that had some other guise. Such clearing pacts merely provide that importers in the respective countries shall pay the cost of their imports into accounts in their own countries, and exporters in the respective countries shall be paid from these accounts. These clearing agreements were generally intended to maintain or accentuate trade with Europe, especially with Germany, the United Kingdom, and a few other nations. Most outright clearing agreements were with Germany and her system of controlled exchange. The existence of blocked balances in Germany arising from former sales, plus curtailment of other European markets, forced many Latin American countries to enter into such arrangements with the Reich.

A variety of payments or compensation agreements have been negotiated between Latin American nations and certain European countries. Payments agreements, usually between a free-exchange and an exchange-controlled country, allow the exporter to be paid directly by the importer. Compensation pacts usually provide that imports from participating countries shall be an agreed proportion to Latin American

[17] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 4, p. 14.

[18] Mordecai Ezekiel, "Economic Relations between the Americas," *International Conciliation*, No. 367:123–124, February, 1941.

exports sold to them. Such arrangements differ from each other and from clearing agreements in scope and mechanism, but they are instituted for a common purpose. These payments, compensation, and also barter arrangements have usually been established in order to maintain certain exports and obtain payment therefore; to balance trade, and to provide for the exchange of surplus products. Most of these pacts have been negotiated by such Latin American countries as Argentina, Brazil, and Chile. Note that few nations in the Caribbean area have entered into such arrangements, although several exceptions can be found. Most of these Latin American payments or compensation agreements have been with Germany, the United Kingdom, Italy, Spain, Japan, and a few other nations.

The objectives, scope, and effects of such arrangements are clearly manifested in the experience of such nations as Argentina, Brazil, and Chile during the 1930–1939 decade. Argentina negotiated fifteen agreements between 1933 and 1940 containing exchange provisions.[19] Most of them provided that Argentina make available, without restriction and at official rates, exchange equal in value to Argentine exports to the signatory country. The most important of these were with the United Kingdom, notably the famed Roca-Runciman Agreements of 1933 and 1936. Comparable pacts with Germany and other European traders enlarged this system until, in 1937, countries with which Argentina had such exchange agreements accounted for more than 55 per cent of total Argentine imports.

The results of the 1933 agreement with the United Kingdom, extended through subsequent renewals and revisions of that pact, illustrate the operation and results of such treaties. The 1933 Anglo-Argentine Commercial Convention involved two principal provisions.[20] In return for safeguarding the British market for Argentine meat, Argentina agreed to make available for remittances to the United Kingdom the full amount of sterling exchange arising from exports to the latter nation. About the only qualification was the provision for deduction of a reasonable sum toward the servicing of Argentine public debts to other

[19] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 1, pp. 17–18.

[20] For a thorough analysis of this pact, see Virgil Salera, *op. cit.*, Chapter 3. Chapter 5 contains a comparable study of the 1936 version, as well as other agreements based upon this model.

countries. This 1933 Roca-Runciman pact was to serve as a model for several other Argentine agreements with foreign countries, the Belgian-Luxembourg, Dutch, Swiss, and German treaties following not long after.

These special agreements obviously and explicitly discriminated against certain other countries. When Argentina adopted an exchange policy of "buy from those who buy from us," those nations with which she had an occasionally unfavorable trade balance were hurt. On the contrary, those countries which usually bought more than they sold to Argentina were in an excellent competitive position. Thus, the trade and payments balances between Argentina and foreign nations furnished the basis for her preferential bilateralism.[21] In the two and one-half years after the negotiation of the 1933 Anglo-Argentine agreement, more than sufficient exchange was made available to cover payment for all imports from Great Britain at the official selling rate.[22] In sharp contrast, payment for approximately 31 per cent of the total imports from other countries was cleared through the free market, at a rate some 20 per cent higher than the official rate. Significantly, only 35 and 46 per cent of imports from the United States during 1935 and 1936 were quoted the official rate, the remainder paying the 20 per cent surcharge.

Brazil has also often modified her nominally unilateral exchange control system by special exchange arrangements.[23] A Brazilian-German compensation system was set up in 1934, resulting in an increase in trade between the two nations. The arrangement called for the exchange of certain products on the basis of special accounts, and was in many respects almost a clearing rather than compensation pact. Oddly enough, the German-Brazilian agreement did not result in an exact balancing of trade, for Brazil had an import balance with Germany for several years. Perhaps this discrepancy can be attributed to the fact that certain commodities were not covered; that balances were liquidated later; or that there may have been certain transfers on non-merchandise account. Similar compensation or payments agreements were

[21] See Vernon Phelps, *The International Economic Position of Argentina*, Chapter 8. For an excellent official statement of this policy, see Banco Central de La Republica Argentina, *Annual Report, 1941*, pp. 9–12.

[22] *Ibid.*, pp. 210–211.

[23] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, pp. 20–22.

negotiated with a number of European nations, including those most important as markets.

Chile maintained perhaps the most elaborate and baffling of all Latin American special exchange arrangements, especially during the 1930–1939 decade.[24] In that period, official compensation or clearing agreements were negotiated with France, Belgium, and several other European countries. Private agreements of the Chilean Nitrate Sales Corporation or Chilean banks were also in effect with nitrate or banking organizations in Denmark, Austria, Italy, Brazil, and Bolivia. Compensation "A" rates were provided for those nations with which Chile had official compensation agreements, but a number of private compensation rates have also been available.[25] Although the majority of these compensation agreements have been motivated by the urge to stimulate exports and balance trade, they have not all achieved their purpose. Chilean imports from Germany during the 1936–1938 period, for example, were markedly in excess of exports to that country.[26] As in the case of the comparable Brazilian import balance, however, the divergency may have arisen through the exclusion of certain goods; subsequent liquidation of the remainder; or certain non-merchandise transactions involved.

Several other South American countries, such as Uruguay and Colombia, also entered into such arrangements during the 1930's. Significantly, Colombia also had great difficulty in achieving a trade balance with Germany under a compensation agreement.[27] Even Nicaragua, strongly oriented toward the United States, established compensation agreements with Germany and Japan.[28] These pacts featured coffee and cotton, and included certain barter provisions.

Although the United Kingdom, Italy, and other great trading nations entered into such agreements with Latin America, Germany apparently gained the most trade through these special exchange treaties. The German Askimark, or compensation mark, system was utilized widely to expand her trade in Latin America as elsewhere in the world. The Askimark differs from the ordinary blocked currency available for

[24] *Ibid.*, Section 4, pp. 14–16.
[25] *Ibid.*, pp. 11–14.
[26] *Ibid.*, pp. 14–16.
[27] *Ibid.*, Section 5, pp. 10–11.
[28] *Ibid.*, Section 15, p. 21.

certain purposes to anyone in that it is available to the exporter only for the purchase of specified commodities in Germany.[29] Germany could pay handsome prices in Askimarks, making up for this generosity by padding the price of the goods for which the exchange was used. Indeed, Germany often bought up surpluses from Latin America, paid for these goods in Askimarks, and then sold the lot in cutthroat competition with the original producers. Examples of this ingenious process included Colombian coffee, Chilean beans, and several Argentine and Brazilian commodities. After establishing herself as the dominant market for certain goods, Germany could exert commercial pressure to force Latin American purchase of a wide range of products. As indicated in an earlier chapter, such tactics aided Germany in her successful effort to increase markedly her share of Latin American trade during 1930–1939. Analysis of German year-by-year trade with specific South and Central American countries reveals the apparent impetus provided by such special arrangements.

Although much Latin American exchange control and many of these exchange treaties were forced by adverse circumstances, they have shackled trade. Such intricate exchange systems have rendered trade very difficult, cumbersome, and slow. When these elaborate mechanisms were employed to enforce preferential bilateralism, the volume of trade was necessarily somewhat reduced. Although the physical volume of trade dropped at about the same rate from 1929 to 1932 as did the physical volume of production, after 1933 trade lagged behind output. Apparently the nations of Latin America came to rely more and more on their own limited output and less on international trade and exchange.

Since much of Latin American trade was formerly multilateral, the bilateral nature of these exchange control and treaty systems both altered the direction of trade and curtailed its volume. Many Latin American nations with export balances toward Europe had to agree to take larger quantities of European goods at favorable rates of exchange. This hurt the opportunities of third countries to sell in these markets to the south, although such nations might be lower-cost, more economic producers. When trade is channeled with bilateral, trade-balancing considerations, rather than least-cost and comparative advantage, uppermost, retarded volume is inevitable. Such bilateral restrictions may also

[29] See Mordecai Ezekiel, *loc. cit.*

have prevented certain capital movements from taking place, since investment and trade are intimately related. Indeed, it has been suggested that such controls may have perpetuated and even accentuated the economic disequilibrium which caused them to be instituted.[80]

Impact of World War II Upon Latin American Exchange Control

The second World War has had a marked effect upon Latin American exchange control, as well as upon the outgrowing maze of clearing, payment, and compensation agreements.

During the first year of the war, the shortage of exchange became much more acute than even during earlier depression years. Most European markets were cut off or curtailed, and the United States was momentarily selling more to Latin America than she was buying. Since blocked sterling accounts checked triangular settlements, little relief could come from that direction. Hence, in those areas of Latin America traditionally oriented toward Europe, exchange control was made much more stringent.[81] Even nations located on the fringes of the Caribbean region were drawn into this restrictionist vortex. Colombia, Venezuela, and Ecuador revised their systems to curtail imports of all but the most essential products. Ecuador and Venezuela also imposed permits on imports in connection with exchange regulation. Argentina and Uruguay ordered successive curtailment of exchange allocation. Since Peru had no formal exchange control, she raised duties on luxuries and all other articles domestically replaceable. The only nations whose exchange situation did not markedly deteriorate during 1940 were those located in Central America and the West Indies. Of the three Central American countries—Costa Rica, Honduras, and Nicaragua—which maintained control, there were no serious restrictions save delay in the first-named pair. Cuba exercised nominal exchange control but did not limit payments for imports.

Late in the year, however, Argentina somewhat modified her active discrimination against the United States.[82] With no alternative sources

[80] League of Nations, *Report on Exchange Control.*

[81] See U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 6, p. 10.

[82] *Ibid.*, No. 55, p 11.

of some products, Argentina had to remove discriminations against certain United States goods. To lessen dollar exchange elsewhere, however, greater restrictions were applied to an increasing number of other products. Iron and steel products from the United States now entered without difficulty, but automobiles, lumber, paper, and several other products were confronted with new obstacles. Despite these modifications in the system, the demand for dollar exchange continued in excess of available supply.

As the war continued, however, exchange restrictions in Latin America began to be materially loosened. In 1941, Latin American nations readjusted somewhat to war conditions, and huge United States purchases of raw materials provided many countries with adequate exchange.[33] Increased United States purchases almost compensated for loss of European markets, although some nations were still adversely affected. This accentuation of buying, coupled with Export-Import Bank loans and stabilization of the hemispheric coffee industry, produced exchange reserves in several instances.

In mid-summer, 1941, Argentina announced the abolition of her system of prior exchange permits and the elimination of the Exchange Control Bureau.[34] Foreign exchange transactions were now to be handled by the Central Bank of Argentina, and the scope of control was curtailed. On the basis of 1940 imports, this modification meant that 85 per cent of imports from whatever country of origin could enter without limitation. Likewise, 11 per cent would be subject to flexible limitations as to quantity; and less than 4 per cent would be temporarily excluded pending improvement of the Argentine exchange situation. Transfer of other funds, including capital investments, would continue to be made in the free market, without restrictions of any kind, but presumably at a higher rate.

During 1941 and early 1942, several other Latin American nations followed Argentina's lead.[35] Many countries lifted restrictions on exchange permits for particularly essential goods. Several increased exchange allotments for specified United States goods, and dollar exchange

[33] Henry Chalmers, "Trade Policies of Foreign Countries during 1941, Part III—Latin America," *Foreign Commerce Weekly*, 6:8–9, January 31, 1941.

[34] "Prior Exchange Permits Abolished in Argentina," *Bulletin of Pan American Union*, 75:672, November, 1941.

[35] Henry Chalmers, *loc. cit.*

was generally granted more freely. There were increasingly short periods of delay, and red tape was minimized in many instances. A general relaxation of control was accompanied by a lessening of discrimination against the United States, as this country replaced curtailed European markets.

The year 1942 witnessed a startling reversal of the exchange situation which had plagued much of Latin America during the years since 1930. Acute shipping shortages and increasing United States preoccupation with war production caused Latin America to have extreme difficulty in maintaining the volume of essential imports of foodstuffs, machinery, and manufactures. Whereas many nations had been plagued by more demand for exchange than could be satisfied, now exchange was abundant in many areas, but using it became increasingly troublesome. Export-Import Bank credits, Pan American Highway construction, and heavy raw material exports accentuated this change. As the number of import sources dwindled, and as procurement of goods from even the remaining nations became precarious, the stringent exchange control of the 1930's became an anachronism. In August, 1942, for example, Costa Rica abolished her exchange priority system of two years' standing, as all those needing exchange were now allowed to get it.[36] Many nations, however, have continued to maintain the framework of their systems, and have merely shifted emphasis from country of origin discrimination to commodity discrimination. During 1942 many nations continued to maintain several rates of exchange, Chile retaining a maze of divergent rates.[37]

Shifts in Special Exchange Agreements

World War II has also affected the series of clearing, payments, and compensation agreements negotiated by so many Latin American nations prior to the war. The impact of the conflict produced three noteworthy shifts in emphasis regarding these pacts.

With the outbreak of the conflict, Germany, Austria, Poland, Czechoslovakia, Denmark, and Norway ceased to be significant factors in

[36] "Costa Rica Exchange Categories Abolished," *Foreign Commerce Weekly*, 8:11–12, September 19, 1942.

[37] "Latin American Exchange Rates," *Foreign Commerce Weekly*, 7:31, May 2, 1942.

Latin American trade. Since many of the more important special exchange agreements had been concluded with these nations, their elimination undermined the system of bilateral exchange treatment. When France, Belgium, Holland, Italy, and Japan, together with several other conquered nations or Axis satellites, also ceased to be significant traders, more of these exchange arrangements became inoperative. Some were formally renounced, others were merely rendered ineffective, but the effect was similar in either case. By 1942, only the United Kingdom remained among the major nations which had negotiated such pacts with Latin America.

The second result of the impact of World War II upon Latin American exchange agreements was the accentuation of British sterling payments agreements. The need of conserving foreign exchange resources for absolute necessities impelled Great Britain to move ever further toward bilateral trading. The wartime British policy was designed to strike a balance between British purchases of Latin American goods and Latin American purchases from the United Kingdom, plus payments to investors. To implement this policy, a number of new payments agreements were negotiated with a large number of Latin American countries.[88] Most of them were modified clearing agreements, calling for payment between nationals of the contracting countries through "special" or "area" accounts. Individual, or "special" arrangements were negotiated with such nations as Argentina, Bolivia, Brazil, and Chile. Most of the remaining Latin American countries have been blanketed under "area" accounts.

The general principle underlying most of these agreements is manifested by the wartime Anglo-Argentine "special account" agreement. This pact represents an extension of the 1933 and 1936 arrangements, and constitutes an almost complete financial and merchandise clearing account between the two nations. The exchange clauses of the earlier agreements have been considerably broadened and the tendency toward bilateralism strengthened. Insofar as this agreement set the pattern for Argentine exchange policy, it indicated a general two-way channeling of Argentina's transactions abroad, involving non-interchangeable currencies and eliminating the international exchange market. Even the trade agreement between Argentina and the United States did not

[88] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 8, pp. 1–10.

abrogate this exchange agreement, although it did provide for its eventual modification.

An interesting aspect of increased British use of such agreements is the tendency toward inclusion of much of the empire, in addition to the United Kingdom. The Anglo-Argentine pact included vast portions of the empire, and the 1940 agreement with Brazil provided that British sterling exchange resulting from Brazilian exports to the empire (excluding Canada, Newfoundland, and Hong Kong) could be utilized to pay for British empire exports to Brazil.[39]

The third major repercussion of the war upon these special exchange arrangements is the increasingly favorable position of the United States. Despite the spread of British special arrangements, the United States has come to be treated with less discrimination. The elimination of many European nations, as well as Japan, drastically curtailed the scope of preferential exchange dealing. With the rapid growth of United States imports from Latin America during late 1940 and in succeeding years, our general trading position with the area has been vastly strengthened. Although shipping shortages, especially in 1942, have threatened to curtail even this trade, the relative dominance of the United States has remained unquestioned. Hence, many nations which actively discriminated against the United States during the 1930's have modified this treatment. Export-Import Bank credits have facilitated this development; and provisions in wartime Reciprocal Trade Agreements have also contributed. In the pact between Argentina and the United States, the latter country was granted unconditional most-favored-nation treatment as to exchange control.[40] Adjacent countries and members of the River Plate customs union were exempted, however, as were sterling countries. Exception of the sterling countries was attributed to the continued operation of the Anglo-Argentine payments agreements, but was to be terminated as rapidly as sterling balances could be converted into free currencies.

CONCLUSION

Latin American exchange control is a phenomenon which first appeared early in the 1930–1939 decade. It was primarily a defensive de-

[39] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, p. 22.

[40] U. S. Department of State, *Press Release 495*, October 14, 1941, pp. 42–44.

vice, designed to conserve exchange and counteract dwindling markets, declining export prices, the exodus of capital, and departure from gold. Exchange regulation of some variety soon spread throughout most of South America, as well as in a few Caribbean countries. The various systems differed in scope and mechanics, some controls being merely nominal while others, such as that of Argentina, were rigid. Exchange control has been operated in Latin America to discriminate among goods and services, implement preferential bilateralism, and afford protection to domestic producers. As an outgrowth of exchange control, a number of clearing, payments and compensation agreements have been concluded. Such nations as Argentina, Chile, Brazil, and Colombia have made extensive use of such special arrangements, diverting trade in a bilateral direction. Of all nations with which Latin America traded, perhaps Germany profited most from the extension of such practices. World War II, at first, accentuated the shortage of exchange and encouraged broader and more rigid controls, as well as some new special agreements. As the United States enlarged its raw material purchase program, however, this tense situation was eased somewhat. Controls were relaxed in several countries, the revision often operating in favor of the United States or at least minimizing former discrimination. British exchange arrangements with Latin American countries, however, have continued in force and been extended during the war.

Chapter 14

OTHER LATIN AMERICAN NON-TARIFF TRADE CONTROLS

AS THE nations of Latin America, caught by a cataclysmic decline in export prices and foreign markets, struggled through the 1930–1939 decade, an increasing variety of non-tariff devices appeared. Multiple-column tariffs, bilateralism, exchange control, and special exchange arrangements paved the way for these other measures designed to restrict, control, and divert trade. Many of these innovations, such as barter, were as old as man and were simply clothed in modern dress and impelled by the exigencies of the moment. Other measures, such as import quotas and certain forms of export control, probably had their roots in the early era of European mercantilism. Truly, there is little that is genuinely new under the sun; yet, the combination of tariff restriction, exchange control, special exchange arrangements, and this host of other devices was a distinctive feature of the chaotic decade preceding World War II. Although France, for example, took the application of outright import quotas much further than did any Latin American nation, even she probably never employed a greater variety of controls.

Resort by Latin American countries to these devices came in part, of course, from their peculiar vulnerability to the world depression. Producers of a few staple raw materials, agricultural and mineral, they were susceptible to the impact of falling prices, restricted markets, and the virtual cessation of the traditional capital influx. Latin American nations were also forced to the employment of certain of these controls because of the trade policies adopted by leading European nations. As Germany, France, Italy, and the United Kingdom resorted to bilateralism, preferential treatment, and barter, vast satellite areas in Latin America were forced to follow suit. Thus, many South American countries markedly drawn toward Europe early tended to drift into ex-

change control, exchange agreements, quotas, barters, and similar devices.

Few Latin American nations employed all the non-tariff controls that will be analyzed in this chapter. In most countries, these controls have merely supplemented tariff and exchange control systems, but in a few instances these special devices have been significant implementations of policy. Some of these controls have been rigidly and arbitrarily enforced; others have remained nominal. This chapter discusses a few of the more important of such measures that have been widely employed south of the Rio Grande since 1930. Although the legal authorization for a few of these devices existed before that year, virtually none of them existed in fact. In order to avoid chopping up the rather fragmentary material, the analysis does not contain a separate segment dealing with the effect of World War II; rather, discussion of each of these numerous special measures includes mention of the impact of war upon these controls. Many devices have appeared with the embroilment of the hemisphere, although many of the old depression controls have been supplanted.

Latin American Import Quotas

Many Latin American countries had not imposed import quotas prior to World War II. In the Caribbean areas, reluctance to resort widely to arbitrary allocation of imports has simply reflected the economic orientation of the region. In South America, however, many nations have utilized quotas. Several of these countries have established import licensing systems in connection with their exchange control, and many special exchange arrangements have been virtually quotas. Indeed, the line of demarcation between exchange control and an outright quota system is virtually impossible to establish with any precision. A number of Latin American nations, however, have established quota systems that can be studied somewhat apart from exchange regulation.

Few of these import quota systems have involved elaborate, systematic mechanisms comparable to the French quota system of the 1930's. Rather, each country imposing such quotas has devised the system to accomplish particular purposes and to supplement the remainder of its foreign economic policy.[1] About the only general obser-

[1] For a country-by-country description of certain of these systems, see U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1–20.

vation applicable to most of these measures is that, as with exchange control, they tend to be discriminatory. All quotas, even those established on the so-called global basis, tend to discriminate in that they ultimately involve more or less arbitrary allocations. Many Latin American quota systems, however, have been deliberately and avowedly preferential, being but segments of bilateral trading systems. An analysis of the various Latin American quota controls reveals a variety of motivations. Perhaps four of these objectives have been uppermost in Latin America since the early 1930's.

First, many quota systems are designed to eliminate or minimize luxury and semi-luxury imports, thus conserving exchange for imports considered essential to the domestic economies. This purpose, it may be recalled, has also been common to both tariff schedules and exchange control. The Bolivian quota system, authorized in 1936, has been operated to thus curtail luxury imports.[2] The number and identity of these restricted imports have varied with the availability of exchange, the scope of the market for tin and other minerals, and the prices of these pivotal raw materials. According to a decree issued in May, 1940, the importation into Bolivia of such articles as metal office furniture, cigarettes, phonographs, motorcycles, radios, and passenger cars was severely restricted.[3] As is apparent from the nature of this list, the decree hit with especial severity against the United States, who has long sold more to Bolivia than she has purchased from that inland nation. Another decree, issued in October, 1940, partially relaxed these restrictions, although the general system was unaltered and remains in force.[4] This type of import quota control tends to be opportunist and fluctuates in scope and severity in accord with the exigencies of the moment.

A second objective frequently underlying Latin American quota systems has been the balancing of trade along bilateral lines. Indeed, many quotas have attempted to restrict luxury imports and to allocate the remaining essential imports among countries of origin. This type of quota control is in harmony with the prevailing tendency toward bilater-

[2] *Ibid.*, Section 2, pp. 7–9.
[3] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 45, p. 3.
[4] *Ibid.*

alism so evident in the tariff policy and exchange control during the 1930's.

Quota systems designed along trade balancing lines have included those established by Paraguay, Venezuela, and Chile. These nations, together with others, have set up import controls explicitly designed to favor those nations with which the trade balance was most nearly favorable. The Paraguayan system, one of the more elaborate, was established in 1939.[5] The executive was authorized to institute quotas, taking into account the nature, class, and origins of the goods, as well as the proportion of Paraguayan products purchased by nations exporting to Paraguay. Later in that year, the government prohibited all imports not covered by prior permits, the intention being to allocate import quotas by countries. Minimum quotas were to be three-fourths of the value of Paraguayan exports to each country, the absolute volume shifting with these exports. The system thus operated to effectuate a favorable balance of trade and to encourage Paraguayan exports.

Venezuela authorized import quotas in 1936, although the precise regulations were not prescribed until 1938.[6] The purpose of such quotas as might be introduced was to re-establish trade equilibrium with countries with whom the nation had an adverse trade balance. This power to impose quotas has been employed very sparingly, the principal instance being a quota on cotton textiles. This was established in 1938 in order to ameliorate a crisis in the Venezuelan textile industry. Chile has also had a quota system of this type,[7] but the wholesale use of compensation agreements has rendered the employment of quotas somewhat superfluous. Indeed, the network of such pacts constituted a haphazard quota system.

These three nations are illustrative of countries establishing trade balancing quotas, although many Latin American nations have incorporated such quotas into their exchange control systems. Note that Paraguay, Chile, and most nations utilizing bilateral balancing quotas with their exchange control are at least partially in the European orbit. Venezuela, the only Caribbean nation utilizing a quota system of this type, has used it in very sparing fashion.

[5] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 7, pp. 12–13.
[6] *Ibid.*, Section 10, pp. 11–12.
[7] *Ibid.*, Section 4, p. 14.

This type of quota continues in operation and will continue operative while Latin American nations feel the pinch of adverse trade balances and a shortage of exchange. World War II, however, has largely impaired the effectiveness of such openly preferential quotas. During the first year of the war, the curtailment of European markets and the maladjustments occasioned by the conflict produced severely adverse trade balances in some areas. In Paraguay, however, the immediate effect of the war was to force that nation to obtain necessary imports wherever they could be found; hence, her trade-balancing quota system was abandoned in February, 1940.[8] As the Paraguayan trade balance deteriorated, though, the quota system was ultimately reintroduced, being restored in February, 1941.

As World War II has continued, the countries of Latin America have been drawn increasingly into the North American orbit. The United States, largely through her strategic raw materials purchase program, began to import more than she sold. Latin American nations also found that the United States was almost the only remaining source of many necessary machines and other essential imports. Many quota systems designed to restrict imports to countries with whom there was a favorable or near-favorable trade balance thereby became somewhat outmoded. Not only has the trade balance with the United States become increasingly favorable to Latin America, but the progress of the war has tended progressively to curtail alternative markets still open.

Significantly, some of the recent United States trade agreements with Latin America have dealt with certain of these bilateral quotas. Argentina, for example, has extended non-discriminatory treatment in regard to quotas, prohibitions, and like restrictions.[9] Specifically, future quotas were to be on a "global" basis. Similar assurances were applied to governmental purchases, imports by monopolies, and comparable transactions. While special exchange agreements remain in force, however, assurances as to outright quotas are restricted in significance.

A third objective of Latin American import quotas has been to afford protection to struggling domestic industry. This type of quota has been established in several Latin American nations since 1930. Application of quotas to competitive industrial goods has also been accom-

[8] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 43, p. 4.

[9] U. S. Department of State, *Press Release 495*, October 14, 1941, pp. 42–46.

panied, as indicated in a previous chapter, by virtual free entry of imported raw materials and supplies needed by local industry.

Peru exemplifies this trend toward the application of protective quotas, although she has not applied import quotas on any general, systematic basis. Protection is achieved by tariff changes and occasional prohibitions of certain types of competitive imports.[10] In 1934, a sharp increase in the cotton textile imports from Japan nearly devastated the domestic textile industry. In 1935, a global import quota was placed upon cotton goods. During the following year, however, this quota was replaced by a voluntary agreement with Japanese textile producers, who agreed to limit shipments to Peru. This private agreement continued in force throughout the decade.

Peru has also employed quotas to regulate as well as to protect domestic textile production. In June, 1938, she prohibited for one year the importation of textile machinery in order to prevent overproduction in the local industry. In June, 1939, this law was extended for two years and applied to still other types of machinery.

In marked contrast to the two forms of quota control previously analyzed, this protective type of quota appears to linger on despite war. World War II actually encouraged this form of quota, since domestic industries have been given an impetus by the curtailment of industrial imports from Europe and even the United States. Hitherto, protective quotas have often been precluded because domestic industries could not take advantage of them.

A fourth motive underlying import quota control became operative with the coming of war to many nations of the hemisphere. As the United States and the twenty Latin American nations have established uniform export controls, many have also created interlocking import control systems. This type of quota has grown in scope with the further extension and increased violence of the war.

The Brazilian import control system, established at the very end of 1941, is illustrative of this new development.[11] Import control is applied to all articles subject to United States priorities and export control. If any article subject to our controls is to be imported into Brazil, a certifi-

[10] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 8, pp. 11–12.

[11] "Brazilian Import Control Established for Articles Subject to U. S. Priorities and Export Control," *Foreign Commerce Weekly*, 6:11, January 31, 1942.

cate authorizing importation must be obtained from the Export-Import Bureau of the Bank of Brazil. This certificate is made out in quadruplicate, at least one copy being turned over to United States control agencies. Significant exceptions to this control system include merchandise for the new Brazilian Steel Company, supplies for a Brazilian steamship line, and Brazilian military supplies purchased in the United States.

Latin American Export Control

Since most Latin American nations have built their entire economies around export trade, their prosperity has depended upon the maximization of such shipments. In not a few instances, however, they have controlled and even severely restricted the exportation of specific commodities. Many of these controls antedate World War II, and some were at least authorized before 1930. Again, several purposes have actuated such measures, five of these objectives being of special significance.

Several nations have restricted exportation of particular materials in an attempt to discourage overproduction and resultant depressed world prices. Brazil's well-known valorization plan to control coffee production and export scarcely requires further elaboration. Comparable controls, imposed by other Latin American countries, do merit further analysis.

El Salvador, largely reliant upon coffee exports, struggled throughout the 1930–1939 decade against the chaos and periodic crises occasioned by chronic overproduction and declining prices. Her woes were almost as acute, although on a far smaller and less spectacular scale, than those of Brazil. For many years she varied her export duty on coffee as the fortunes of the industry shifted, but this flexible duty was unsatisfactory either as a revenue measure or as an instrument of control. In October, 1940, she fixed a quota, amounting to about 15 per cent of the 1940–1941 crop, to be prorated among growers and exporters for shipment of coffee free of the usual duty.[12] The following month, a decree was issued that no coffee of the 1940–1941 crop might be exported without permits issued by the Salvadoran Coffee Growers Association, a quasi-governmental institution. Shortly after, of course, the

[12] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 12, pp. 16–17.

Inter-American Coffee Agreement was signed, and export control and quota systems involving coffee were established not only in Brazil and El Salvador but in all fourteen of the coffee-exporting nations of the hemisphere. For a description of this path-breaking hemispheric marketing and quota system, see the chapter dealing with Pan American cooperation.

A second objective common to several export control systems has been the safeguarding of domestic supplies and avoidance of further local price raises. In Mexico, for example, the government has the power to declare an outright embargo upon products whose export hurts the economy of the nation.[13] At one time or another the export of beans, rice, wheat, imported medicinal preparations, and raw materials used in pharmaceutical or medicinal products has been prohibited.

A third type of export control system employed in a few Latin American countries is designed to favor national monopolies or cartels. The Chilean Nitrate Sales Corporation, for example, exerts almost full control over exports of nitrate and iodine. A number of other quasi-governmental or official monopolies have comparable powers in various other Latin American countries. Furthermore, as new industries came to be nationalized after 1930, their export sales have been regulated under separate rules. The Mexican and Bolivian expropriations of oil are familiar examples, but Brazil has followed a similar procedure with her petroleum industry. When the domestic industry was nationalized in 1938, the production, importation, distribution, sale and refining of petroleum became subject to federal regulation.[14] In a few other nations, competitive petroleum companies have been set up and favored by the government.[15]

A fourth type of export control is imposed upon products whose exportation might facilitate the establishment of a competitive foreign industry. Latin America recalls with some pain the way in which rubber and cinchona buds and samplings were taken from South America to the Far East. Although Brazil did eventually ban the exportation of rubber stock, the proverbial barn door was already hanging ajar.

[13] *Ibid.*, Part II, Section 17, pp. 35–36.

[14] "Petroleum Industry of Brazil Nationalized," *Bulletin of Pan American Union*, 72:426, July, 1938.

[15] See D. M. Phelps, "Petroleum Regulation in Temperate South America," *American Economic Review*, 29:48–59, March, 1939.

In recent years, mindful of the past, Brazil has attempted to prevent a similar flight of other domestic industries. In 1938, for example, she barred the export of oiticica seeds, in order that this potential successor to tung oil should not be the bonanza of another area.[16] As other exotic Amazon products are exploited, further measures of this type may be expected.

A fifth type of export control appeared with World War II. Every nation of Latin America had set up, by September 15, 1941, an export control system to correspond with that established by the United States.[17] These controls are used to channel and control trade along wartime lines, but they are doubtless employed in some instances for long-range purposes. Such systems have been supplemented, as will be discussed shortly, by pacts with the United States and the United Kingdom, in which exportable surpluses of strategic and critical materials are sold on a preferential basis.

Latin American Barter Arrangements

The nations of Latin America were in a peculiarly vulnerable position during the 1930–1939 decade in regard to those European nations which wished to impose trading through barter. Most nations south of the Rio Grande are primarily exporters of raw materials and in most cases depend largely upon the export of one or a handful of commodities. To add to their woes, many of these key exportable products were perishable, could not be stored indefinitely, and had to be disposed of quickly. As indicated in previous chapters, European nations customarily absorbed a very large proportion of these key exports. Indeed, the United Kingdom, Germany, France, and Italy took such a large share of this pivotal export trade that many Latin American nations grew to depend upon them. Hence, when these European traders resorted to bilateralism and barter, a similar policy was forced upon many countries in Latin America. Such nations as Chile, whose natural nitrate industry had virtually collapsed, were in an almost helpless position. Indeed, virtually all the South American countries were forced

[16] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, p. 15.

[17] Paul Nitze, "Progress of Inter-American Economic Cooperation," *Foreign Commerce Weekly*, 4:11, September 6, 1941.

to resort to barter in greater or less degree. While barter permeated the Caribbean area as well, the post-1934 United States policy of equality of treatment more or less precluded the large-scale development of barter trading in that area.

The growth of barter was also an outgrowth of governmental intervention in the foreign trade realm during the 1930's, especially in Europe. As Germany, France, and other European governments took over increasing control of the mechanism of foreign trade, barter was facilitated. With the outbreak of World War II and huge governmental purchases, this tendency was accentuated. European markets became very irregular after the beginning of the war.[18] Special contracts were made for purchases in large quantities, these goods being shipped in great volume and in a short time. Exports then slackened until new contracts were ready for execution. Virtually all these contracts took place either under compensation or payments agreements, or through outright barter. The distinction between these two categories has usually been so vague as to be virtually indiscernible.

Outright barter deals, not cloaked as compensation, payments, or clearing agreements, featured the latter portion of the 1930–1939 decade. Argentina, for instance, has frequently resorted to barter. Many of these arrangements have been incorporated in her exchange control system or in special exchange treaties, but separate barter deals have also been made. During and subsequent to 1936, undisguised barter agreements concerning meat were made not only by Argentina but as well by Uruguay and Brazil with a number of European countries.[19] These deals, it was reported, temporarily eased the situation. Argentina also negotiated barter deals with non-European countries, concluding a barter arrangement with Japan in March, 1940, involving a foreign trade of 30,000,000 yen per year.[20]

In the late 1930's, this epidemic of barter even spread to the Caribbean region, which also felt the impact of depression and war. Venezuela arranged a number of trade pacts involving bilateralism, trade

[18] C. K. Ludewig, "Annual Economic Survey of Latin America, 1939," *Commercial Pan America*, 9:56–57; April–May–June, 1940.

[19] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 1, p. 265.

[20] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 55, p. 11.

balancing, and barter, in various combinations.[21] The distinction between a severely bilateral, trade-balancing pact and an open barter agreement is always more or less nominal. In 1938, Venezuela negotiated a treaty with Germany, involving trade balancing and German purchase of Venezuelan coffee and cacao, to be paid for with German goods. In 1939, other pacts with Italy and Japan provided for trade balancing, revised import quotas for Venezuelan products, and quasi-barter. In that same year, an outright barter deal was arranged with Spain, whereby coffee was to be exchanged for cement.

Mexico, while clinging to her single-column tariff and negotiating several unconditional most-favored-nation treaties, also bartered.[22] During the 1937–1939 period, when the Mexican economy was torn by the maladjustments occasioned by oil expropriation and the domestic reform program, she entered into deals with Germany, Italy, and Japan. These arrangements called for an exchange of Mexican petroleum for manufactured goods. In April, 1939, Mexico arranged an exchange of Mexican petroleum for Italian rayon. The operation of these various barter deals, however, was severely restricted and eventually ended by World War II.

Indeed, since most barter arrangements in force in Latin America involved Germany, Italy, Japan, and other Axis or conquered nations, World War II has effectively curtailed old-style barter.

Special Latin American Commodity Arrangements

Since the outbreak of World War II, Latin American nations have entered into a number of commodity agreements with the United States and the United Kingdom. As analyzed in a subsequent chapter, they have also entered into a hemisphere-wide agreement as to the marketing of coffee. At this point, however, the bilateral pacts are of paramount interest.

The United States has launched upon a program of preclusive or pre-emptive buying of strategic or critical raw materials. Most of these purchases have been from Latin American nations, which have often

[21] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, pp. 12–13.

[22] *Ibid.*, Section 17, pp. 38–39.

agreed to reserve their exportable surplus for the United States and other nations in the hemisphere. In a few instances, the arrangements have called for immediate purchase by the United States government, whereas in others the United States merely acts as a guarantor.[23] These pacts have included a large and expanding list of commodities, including Bolivian tungsten and tin; Mexican antimony, copper, mercury, tungsten, tin, and zinc; Peruvian antimony, copper, tungsten, vanadium, and zinc, as well as cotton; Argentine tungsten; Chilean copper, manganese, mercury, cobalt, lead, and zinc; and Brazilian bauxite, beryl, chromite, ferro-nickel, industrial diamonds, manganese, mica, quartz crystals, rubber, titanium, and zirconium. This list is constantly expanding and is gradually coming to include a number of commodities not on the official strategic or critical materials list. In certain cases, as in the original Brazilian arrangement, stipulated maximum amounts are designated; in others, the entire exportable surplus of whatever size is reserved.

The entry of the United States and much of Latin America into World War II stepped up the tempo of this program of special commodity purchases. For example, shortly after the entry of the United States into the war, action was taken to absorb the entire sugar output of Cuba. In January, 1942, a presidential decree authorized the Cuban Sugar Institute to allow the export to the United States of any surpluses of sugar remaining at the end of 1941, in order to help relieve the sugar shortage.[24] A presidential decree issued at the end of that month authorized the Institute to acquire the entire 1942 sugar crop and to sell it to the Defense Supplies Corporation of the United States.[25] The United States has also acquired the Brazilian rubber output for five years; has guaranteed a market for Brazilian iron ore; and has otherwise vastly extended its purchase program. As of June, 1941, such pacts had been negotiated with at least 16 of the 20 Latin American republics and negotiations were reported under way with the remaining nations.

[23] For a brief review of a few of these arrangements, see "Latin American Strategic Metals and Their Relationship to the U. S. War Program," *Commercial Pan America*, 11:30–32, March, 1942.

[24] "The Americas and the War, Part I," *Bulletin of Pan American Union*, 75:229, April, 1942.

[25] *Ibid.*, p. 230.

By autumn, 1942, the United States had contracted to buy the exportable rubber production of several Latin American countries.[26] Many of these purchase agreements, often with a span of four or five years, were bulwarked by technical assistance and mutual developmental projects. Much of the initiative was taken by the Board of Economic Warfare, the State Department, and the Rubber Reserve Corporation. In other instances, not involving rubber, the Commodity Credit Corporation assumed a pivotal role.

This type of purchasing has not been confined to the United States, since the United Kingdom has also arranged several of these pacts. Most of the Patino tin output from Bolivia is smelted in the United Kingdom, under a ten-year commitment. Agreements have also been concluded with Haiti, the Dominican Republic, the British West Indies, British Guiana, and other areas involving British purchases of exportable supplies of sugar.[27] The United Kingdom has also purchased huge quantities of surplus beef and mutton from Argentina and Uruguay.

These purchase agreements should be analyzed from the vantage point of Latin American trade policy, as well as from the United States point of view. There can be no question that these arrangements constitute bilateral action on a substantive as well as a formal basis. These pacts diverge from barter in that they involve payment in money, but they are similar in that they specify commodities. They also usually contain stipulations that the buying nations will make every effort, in view of priority regulations and shipping shortages, to deliver essential imports. It would seem that these arrangements constitute a recognition by Latin American nations of wartime realities and an adjustment to the exigencies of war. They facilitate shipment to the only possible markets, whatever the commercial policy that might be employed. Such agreements, in short, probably constitute discrimination in a nominal rather than an active sense. Continuation of such preclusive purchases after the cessation of the war, however, constitutes merely a modified form of barter and preferential bilateral trading.

[26] For descriptions of these various rubber purchase agreements, see *Foreign Commerce Weekly*, 1941, and after.

[27] Gustave Burmeister, "Accent on Sugar," *Agriculture in the Americas*, 2:67, April, 1942.

Broad Development Arrangements with the United States

Since the outbreak of World War II, first in Europe and eventually throughout the world, several Latin American nations have negotiated vast, sweeping agreements with the United States. These have encompassed far more than trade policy or the purchase of individual commodities, involving settlement of past claims, extensive loans, technical assistance, long-range development projects, and even military cooperation. These arrangements represent collaboration along a broader and longer-range front than any previously encompassed by Latin American foreign economic policy.

In the series of accords with Brazil concluded in March, 1942, a number of items of both immediate and long-run significance were included.[28] Of especial importance were United States–Brazilian cooperation in strategic raw material output; specific cooperation in expanding both wild and plantation rubber production; collaboration in the development of the Itabira iron mines; construction of railway and port facilities; Export-Import Bank loans; and substantial Lend-Lease aid.

An agreement with Haiti, concluded in May, 1941, provided for United States subsidization and cooperation in an ambitious program of experimentation and agricultural development.[29] Whereas the plan revolves around an effort to develop rubber plantations, it also involves an increase in banana planting; the planting of oil crops, spices, drug, food, and fiber plants, cacao improvement; development of Haitian forestry resources; and stimulation of small handicraft industries. This plan calls for long-range development and is on a mutual-aid basis, being a far cry from the intervention of the 1920–1929 decade.

Other examples of similar development arrangements involving other Latin American nations are appearing with increasing frequency. In the spring and summer of 1942, for example, pacts were negotiated with Bolivia, largely involving claim settlement and an Export-Import Bank loan for oil development; [30] and with Peru, concerning Export-Import and Rubber Reserve Company loans, purchase of surplus com-

[28] "United States Presses Hemisphere Solidarity Program," *Foreign Policy Bulletin*, 21:3–4, March 13, 1942.

[29] U. S. Department of State, *Bulletin*, May 10, 1941, p. 567.

[30] "Bolivian-United States Agreements," *Bulletin of Pan American Union*, 76:354, June, 1942.

modities, and similar matters.[81] Further collaboration with Haiti was arranged, and an agreement with Nicaragua concerning the Pan American Highway, continuance of essential imports, production of rubber and abaca, and defense was concluded.[82] A number of economic missions have been sent, as to Brazil, in order to encourage industrialization. Apparently the war has provided a tremendous and far-reaching stimulus not only responsible for wartime expansion of output but also for inauguration of long-range development programs designed for post-war operation.

This type of broad, comprehensive arrangement has its bilateral aspects, since the end-results of much of this development will be of benefit to the United States. Indeed, in many instances the United States and United Kingdom have agreed to absorb the products of those industries which are being subsidized and developed. But as long as the cooperation remains on a mutual-aid basis and the United States or United Kingdom do not acquire a trade monopoly, this type of venture should not embarrass the post-war era. As indicated in a previous chapter, the post-war era is very likely to witness a marked expansion in the significance of public capital employed in Latin America.

Latin American Price Fixing and Export Subsidies

Several Latin American countries have influenced the course of production, export, and foreign trade by policies that appear superficially to be domestic measures. These include price fixing and the granting of subsidies to export industries.

Brazilian attempts to control coffee production and prices are familiar to even the casual reader of the newspaper and news magazine. At various times Brazil has attempted direct production control, marketing control, regulation through export taxes and restriction, bonuses in kind, and even direct price pegging.[83] Even since the Inter-American Coffee Agreement went into operation, Brazil has continued to destroy part of her coffee output, has fixed and regulated prices, and has con-

[81] "Agreements between the Governments of Peru and the United States," *Bulletin of Pan American Union*, 76:355–356, June, 1942.

[82] "The Americas and the War, Part IV," *Bulletin of Pan American Union*, 76:395–405, July, 1942.

[83] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 3, pp. 23–24.

trolled export. These measures represent desperate attempts on the part of Brazil to adjust herself to chronic overproduction in the world coffee industry. They also constitute a major portion of Brazil's foreign economic policy, since the Brazilian economy rests in large part upon coffee.

Argentina attempted a form of price control in 1933 and subsequent years through the Grain Board.[84] The government purchased grain at minimum, basic prices and sold, wholly for export, at world prices. This price regulation affected the entire Argentine trade policy, since grain exports are vital to the nation. During the early stages of the depression, similar price-pegging efforts were made in Cuba, Uruguay, Mexico, Chile, and several other nations.[85] Most of these schemes involved supply control of some variety, although others concerned import controls and still others established direct pegging of domestic prices. With the outbreak of World War II, price control, directly or obliquely, permeated the economies of most of the major nations of the hemisphere. In 1941, Panama, Venezuela, Argentina, Brazil, and Chile utilized price controls in an attempt to solve internal economic problems and adjust to world economic movements.[86] Late in that year, the Argentine policy of guaranteeing grain prices was drastically extended until it amounted to virtual state monopoly of the grain trade.[87] Price fixing of raw material staples has spread with the progress of the war, as maladjustments and the exigencies of war have rendered increased government intervention inevitable.

Subsidies have also been commonly employed in a few Latin American nations and have been an effective, if indirect, form of trade control. Venezuela has probably utilized such subsidies on a more comprehensive basis than has any other country south of the Rio Grande.[88] Most of these payments have involved agricultural products influenced adversely by curtailed markets and declining prices. In 1934 and 1935,

[84] Simon Hansen, "The Argentine Grain Board," *Journal of Political Economy*, 44:240–247, April, 1936.

[85] Myer Lynsky, "Agricultural Price-Supporting Measures in Latin America," *Bulletin of Pan American Union*, 67:567–590, July, 1933.

[86] William La Varre, "U. S. Absorbing Increased Portion of Latin American Exports," *Foreign Commerce Weekly*, 4:7, July 19, 1941.

[87] Louis Nolan, "The Evolution of the Argentine Grain Price-Guaranteeing Policy," *Foreign Agriculture*, 6:185–203, May, 1942.

[88] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Section 10, pp. 13–14.

subsidies were granted to relieve growers of coffee and cacao; in 1936, these bounties were extended to a number of other agricultural products. In the fiscal year 1936–1937, subsidy payments totaled 22,000,000 bolivars, or about $6,600,000. In recent years, export bounties have been paid on an ever larger scale, subsidies having been extended at one time or another to all agricultural, pastoral, forest, and water products (except pearls). Beginning in 1938, however, these subsidies have constituted but one aspect of an ambitious Three-Year Plan of social, economic, and cultural development, aimed at relieving unemployment and stimulating national industrialization.

Mexico has also utilized subsidies for various purposes, although on a much more limited and specific basis.[39] In 1939, for example, a subsidy was granted to henequen binder twine, this subsidy being equal to the new 12 per cent ad valorem export duty imposed in 1938. In 1940, a similar subsidy was extended to chicle. In effect, these subsidies amounted to exemption from the additional export tax.

World War II, with its sharp rise in many prices, has facilitated the discontinuance of some of these subsidies. The curtailed markets for certain products, however, has extended the need of relief in other directions and industries.

Minor Latin American Non-Tariff Controls

Even the host of non-tariff controls analyzed in the previous chapters does not encompass all the devices that have been employed to directly or indirectly control Latin American trade. A brief description of a few of these special controls will indicate their nature.

Cuba applies two rates of consular charges, the rates employed depending upon the country of origin.[40] She also grants substantial reductions in the internal consumption tax on whisky to certain countries, and these reductions are not generalized.

Brazil insists upon the admixture of flour from local products with imported flour,[41] a regulation which is not uncommon in South America. Brazil has also established purchase-ratio requirements for domestic and imported coal, as well as for native alcohol and imported gasoline.

[39] *Ibid.*, Section 17, pp. 32–36.
[40] *Ibid.*, Section 18, pp. 24–25.
[41] *Ibid.*, Section 3, pp. 14–15.

Similar regulations have been imposed by Paraguay, Argentina, Peru, and a few other nations.[42]

Quarantine control has also been authorized and utilized from time to time, often for retaliatory purposes. Argentina, smarting under United States quarantine regulations, early authorized her executive to quarantine, restrict, or prohibit importation of plants and seeds.[43]

Brief mention should also be made of those nations which control trade through nominally domestic taxation. Their name is legion, but the Dominican Republic is a clear-cut example. That nation has imposed sales, use, and consumption taxes on the importation of some 250 products.[44] These are in addition to import duties and are designed principally for additional revenue. Although the executive can make concessions regarding these taxes, the last one-tenth is not subject to reduction. Other internal taxes which affect the volume and direction of production and trade include exchange fees, port charges, excess profits taxes, and direct taxes on industries producing for export.[45]

Cartelization as a Latin American Trade Control

In an earlier section of the chapter, casual mention was made of the way in which national monopolies have exerted export control. In an even more profound sense, these monopolies, state-controlled industries, and international cartels have influenced Latin American trade. Many of them regulate or determine output, price, exports, and markets for important commodities. To the extent that such matters are thus determined, non-tariff trade controls of a very potent type have been introduced.

The most familiar examples of Latin American industries which have been subject to strict control have been Brazilian coffee and Chilean nitrates. The Brazilian coffee industry has been subject to constant and rigid control during much of the post-World War I period.[46] Valoriza-

[42] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 6, p. 10.

[43] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, Section 1, p. 15.

[44] *Ibid.*, Section 19, p. 11.

[45] See Paul Studenski, *Tax Systems*, pp. 369–382.

[46] Benj. Wallace and Lynn Edminister, *International Control of Raw Materials*, Chapter 5.

tion, crop destruction, and the Inter-American Coffee Agreement have been but a few of the attempts to rid the industry of chronic overproduction and resultant declining prices. Over this period of desperate control, the actual former customs policy of the government was but a secondary factor. When export taxes were applied, their purpose was usually to implement the prevailing control scheme rather than to raise revenue. Since the Brazilian economy has long been based in large part upon the coffee industry, this direct control has had widespread repercussions.

A similar and perhaps even more baffling situation has existed in the Chilean nitrate industry.[47] Although Chile long held a virtual monopoly of the world's supply of natural nitrate, after World War I she rapidly lost ground to the synthetic nitrate industry which had arisen in many nations. The Chilean industry had long been rationalized and had attempted to control output, world prices, and exports. With the new threat of imminent collapse, control was intensified, first through the ill-fated COSACH and ultimately through the quasi-governmental Nitrate and Iodine Sales Corporation. A detailed history of these attempts is not pertinent at this point, and it is enough to note that nitrate policy has been more or less independent of general trade policy.

Cartels have also functioned in many areas of Latin America. To the extent that they have transcended national trade policies, they have emerged as significant non-tariff controls. Indeed, while most nationally controlled industries have been at least partially synchronized with public policy, cartels have often run counter to national desires. International cartels have been very powerful in many of the raw-material industries of concern to Latin America. Several of these cartels have included Latin American producers; a number of others have influenced producers in this hemisphere who were technically non-members.[48]

In a few instances, Latin American industries have been major participants in international raw-material cartels. The Chilean nitrate industry has long been a member of the International Nitrogen Cartel,

[47] *Ibid.*, Chapter 2.

[48] For a description of cartels operating in raw materials, see Benj. Wallace and Lynn Edminister, *loc. cit.*; Wm. Elliott, *et al.*, *International Control in the Non-Ferrous Metals;* Robert Morton, *International Raw Commodity Price Control;* and Temporary National Economic Committee, *Hearings*, Part 25.

although it has been roughly treated on occasion by the synthetic producers participating. Although the Cartel was renewed in 1938 for three years,[49] with the outbreak of World War II it was regarded as having ceased to function.

Latin American copper producers have been directly involved in the International Copper Cartel, several South American affiliates of United States corporations being members.[50] Thus, both non-United States and United States copper output and prices have been influenced or determined by the Cartel. The share of non-United States copper output contributed by these Latin American subsidiaries, largely Chilean, has been very appreciable. Although the Cartel has been virtually suspended since the beginning of World War II, Latin American copper production is still controlled by the broader policies of the parent companies.

Bolivia has likewise been a relatively major participant in the International Tin Cartel, although she has probably not exerted much influence.[51] This cartel has attempted to maintain prices at a sufficiently high level to cover expenses and profits of high-cost producers. Although production has nominally been restricted, the Bolivian quota was set at the high 1929 levels, and actual production since that date has normally fallen far below the quota. With World War II and Japanese conquests of Malaya and the Dutch East Indies, the Cartel ceased to operate.

Latin American producers of a number of other raw materials have either been very minor members, or non-members, of several other cartels. Mexico, for example, has been a minor participating member of the zinc cartel. Brazil has been a non-member of the rubber control, although prior to 1910 she exerted a world control of her own. The impotence of the Brazilian wild rubber industry was revealed when she could not take advantage of the resentment against the Stevenson plan of output and price control. Minor quinine producers in Andean South America have been non-members of the Kina Bureau, the Dutch

[49] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part III, Vol. 2, p. 289.

[50] See *Ibid.*, Vol. 1, pp. 122–123; Alex Skelton, *International Control in the Non-Ferrous Metals*, Chapter 8; and Temporary National Economic Committee, *Hearings*, Part 25, p. 13,528.

[51] Elizabeth May, *International Control in the Non-Ferrous Metals*, Chapter 7.

control long dominating 90 to 95 per cent of the world output and practicing rigid price control. Indeed, the Bureau long bought much of the small South American cinchona output merely to preserve domination. Mexico and other Latin American mercury producers have also been non-members of the Spanish-Italian mercury cartel, which has sought astronomic prices and rigid output control. These Latin American mercury producers have been sufficiently vigorous, however, to profit somewhat from the excesses of the cartel.

Conclusion

These Latin American non-tariff controls have been impelled by the same motivating forces actuating preferential, bilateral tariff policy and exchange control. Caught in the maelstrom of world economic collapse, the nations of Latin America have sought to make adjustment by any means at hand. Many of these means have encompassed new devices, distinct from either tariffs or exchange control.

During the 1930–1939 decade, import quotas came to be frequently employed, often in conjunction with or supplementary to exchange control. These quotas have been designed to conserve exchange for essential imports, balance trade along bilateral lines, and protect domestic producers. With the advent of war, import controls also came to be employed to implement export control systems. Such export control had existed in several countries prior to World War II, being established to discourage overproduction, safeguard domestic supplies, favor national monopolies, and prevent migration abroad of local industries. With the war, export controls were either created or enlarged in order to control the volume and destination of vital exports.

Barter has also been an outgrowth of the vulnerable economic position of Latin America, many nations in that area being forced to deal in this way with Germany, Italy, Japan, France, and other countries. Although South America resorted more widely to this device, several Caribbean nations also bartered before the end of the 1930–1939 decade. With the outbreak of World War II and the resultant disappearance of much barter-inspired trade, special commodity deals with the United States and the United Kingdom came to be significant factors in channeling Latin American trade. These purchase agreements have been bulwarked by long-range development projects launched, with United States aid and encouragement, in various Latin American nations.

Latin American trade has also been materially influenced by domestic price fixing and by export subsidies. Several nations influence the volume of exports by these devices, often established primarily to achieve domestic objectives. Minor non-tariff controls, such as differential consular charges, compulsory admixture of local with imported products, quarantine control, and domestic excise taxation, also condition the course of trade. National monopolies and international cartels, through their influence upon output and prices, also exert a decided influence upon world commerce in specific products.

Chapter 15

PAN AMERICAN COOPERATION

A SIGNIFICANT development of the late 1930's and early 1940's has been the rapid growth of economic cooperation in Pan America. This cooperation, although often instigated by the United States, has spread to include most of the nations of the hemisphere. Indeed, hemispheric cooperation on an organized, institutional basis has now become a commonplace. Each agency or institution has been established to meet particular needs, but a pattern of cooperation has thereby gradually emerged. With the modification of United States tariff protection and the abrogation of the Platt Amendment and similar remnants of intervention in the Caribbean, one element vitally necessary to successful cooperation was introduced. With the continued curtailment of European markets, a further impulse toward cooperation within Pan America was provided. It remained for World War II, with its virtual elimination of non-hemispheric trading, to accentuate this incipient tendency. As the nations of Latin America felt the shattering impact of the war, they sought to make necessary readjustments. With overseas markets and sources of supply gone, they have attempted to develop the trade and resources of the hemisphere. As indicated previously, this sudden upsurge of concern over intra-American trade and finance has resulted in customs unions, trade agreements, Export-Import Bank loans, and the proposal of an Inter-American Bank. After World War II broke out, however, the movement toward hemispheric cooperation came to be directed toward the achievement of both wartime objectives and long-range goals. In the remainder of this chapter, the nature, scope, and significance of certain Pan American cooperative ventures will be subjected to analysis.

Wartime Cooperation

Many such measures, of course, are primarily of wartime concern and appear to have limited long-range significance. The twenty nations

of Latin America, for example, have established export control systems parallel with the system operative in the United States. Many countries have also set up import control systems designed to supplement the export control mechanism of the United States. Although export and import controls are not unfamiliar to Latin America, these new systems were designed largely for wartime, more or less temporary purposes. They have played an active part in the prosecution of the war, but they do not seem to be designed for permanent or even quasi-permanent operation, barring post-war monopoly of trade by governments.

When the nations of Pan America met in Rio de Janeiro early in January, 1942, several of the resolutions agreed upon fell within this category.[1] The conference resolved to complete severance of commercial and financial relations with the Axis nations. The Inter-American Financial and Economic Advisory Committee was asked to sponsor a conference to standardize procedure in banking operations relating to Axis nationals.[2] The committee, which will be mentioned frequently in this chapter, is an important agency established in the late 1930's by the Pan American Union. A number of other resolutions, primarily political but also containing profound economic implications, were also formulated.

Although the conference did convene for the purpose of mobilizing the hemisphere for war, most of the resolutions and recommendations dealing with economic matters had obvious long-term aspects. The precise line of demarcation between short run and long run, of course, is almost impossible to define in many instances.

The conference recommended that the nations of the hemisphere mobilize all possible supplies of basic and strategic materials in the shortest possible time. This urgency was essential, since the nations of the hemisphere that were at war badly needed such products. This recommendation, however, also called for elimination or minimization of restrictions impeding production; strengthening of finances of the producing countries; and negotiation of bilateral or multilateral agree-

[1] The following description of the decisions of the Conference is taken from "Third Meeting of Ministers of Foreign Affairs of the American Republics—Text of Final Act," *International Conciliation*, No. 378:99–144, March, 1942.

[2] For a report of this conference, see Manuel Gallagher, "Inter-American Conference on Systems of Economic and Financial Control," *Bulletin of Pan American Union*, 76:481–487, September, 1942.

ments covering long periods of time. Such agreements were also to "make provision for the period of transition after the war and the readjustments which will follow in a manner guaranteeing the continuance of adequate production and permitting the existence of trade under conditions equitable to producers." [8]

The conference also made certain suggestions relating rather directly to maintenance of the internal economies of the American nations. They included continuance of production of essential raw materials, industrial machinery, and other vital products. They also involved such proposals as free access by all American nations to inter-American commerce and raw materials; liberal credit terms by exporters of vital products, to cushion the shock of curtailed foreign trade; cooperation in hemispheric price policy; and the establishment of simplified export control systems. Although most of these resolutions were concerned with the immediate prosecution of the war, the deeper implications are apparent. The very establishment of the principle of free access to raw materials and trade within the hemisphere sets a significant precedent for the post-war era.

The conference was also much concerned about the mobilization of transport facilities. It was recommended that communication systems be expanded and improved to speed the war effort and increase commerce; internal transport facilities be developed to assure rapid delivery of essential goods; and inter-American air, maritime, land, and inland waterway facilities be extended and much improved. Specific projects were also to be encouraged, notably, construction of hitherto unfinished sections of the Pan American Highway. The Inter-American Financial and Economic Advisory Committee and the Inter-American Technical Commission were asked to implement and encourage the achievement of these goals. Although obviously the conference was very anxious to pool and improve existing facilities for the winning of the war, projects requiring many years for completion were also discussed in detail.

It was resolved by the conference that the Inter-American Development Commission should be encouraged to expand its activities. Significantly, the Inter-American Financial and Economic Advisory Committee was instructed to create, under the auspices of the Development

[8] "Third Meeting of Ministers of Foreign Affairs of the American Republics —Text of Final Act," *International Conciliation*, No. 378:107, March, 1942.

Commission, "a permanent body of technical experts to study the natural resources of each country when so requested by its government." [4]

The conference appeared somewhat disturbed because the war had impelled a number of American nations to create emergency industries which, under normal circumstances, might be uneconomic. It was resolved, therefore, that each nation avoid as far as possible the establishment or expansion of such industries.

Certain other resolutions, recommendations, agreements, and declarations encompassing long-range projects were also drafted. It was recommended that those governments not already signatory to the Inter-American Bank study the proposal and make their decision known as soon as possible to the Inter-American Financial and Economic Advisory Committee. This committee was also requested to take steps to encourage intra-American capital investment, including requests to the various governments to remove impediments to such outlays.

The conference also agreed to request the American republics to participate in and support the Inter-American Statistical Institute of Washington, discussed later in this chapter. Another declaration asserted that, to raise the standard of living of all the people, the natural resources of the hemisphere must be directed toward greater industrialization. It was also recommended that the American republics study the possibility of concluding a multilateral convention minimizing generalization of special concessions granted to the inland nations of the Americas.

Of special long-run importance is the agreement of the conference that an international stabilization fund should be established. This fund was to be of assistance in the war, but it was also to "promote stability of the foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of barriers to the movement of goods, assist in the correction of the maldistribution of gold, strengthen monetary systems, and facilitate the maintenance of monetary policies that avoid serious inflation or deflation." [5]

Inter-American Coffee Agreement

In many ways the most sweeping project yet actually launched for hemispheric cooperation has been the Inter-American Coffee Agreement. This far-flung quota arrangement has not only represented a

[4] *Ibid.*, p. 118.
[5] *Ibid.*, pp. 120–121.

large-scale effort to solve a baffling surplus problem, but it may well serve also as a model or point of departure for future agreements in other spheres. Although impelled by curtailment of wartime world markets for coffee, the agreement was also an outgrowth of many years of chaos in the industry.

The Inter-American Coffee Agreement was launched after a protracted period of cutthroat competition, chronic overproduction, declining prices, and sharply curtailed world markets. The 1930's witnessed a disastrous decade of depression and dislocation in the Latin American coffee industry, as prices fell and exports continued to dwindle. In the 1931–1941 period, Brazil alone burned 71,418,000 bags of coffee rather than release them in an already surfeited market.[6] Chronic overproduction plagued the industry in most of the seven nations which depended upon coffee as the leading export staple and in all the fourteen countries which were producers on some scale. The outbreak of World War II, with the resultant closure of important European markets, intensified an already baffling problem. Total Latin American exports of coffee in 1939 amounted to 24,894,000 bags, of which 14,777,000 bags, or 59 per cent, were sold in the United States and 8,551,000 bags, or 34 per cent, in Europe.[7] Despite huge shipments to Europe early in 1940, the decrease in coffee exports to that continent in 1940 amounted to 5,894,000 bags, or 69 per cent. Although United States imports during 1940 increased to new highs, most of this gain occurred late in the year and did not prevent record lows in earlier prices.

To prevent complete disaster, representatives of Latin American coffee-producing nations and the United States sought to stabilize the coffee market. As a result, the Inter-American Coffee Agreement was signed in Washington in November, 1940. Although the agreement was not immediately ratified by two signatory nations, Cuba and Venezuela, it soon went into actual operation in virtually all nations.

The specific purposes of this agreement are several:[8] first, the establishment of a large-scale, stable market for Latin American coffee;

[6] William La Varre, "Coffee—Volatile Brew of Cooperation or Competition," *Foreign Commerce Weekly*, 5:6, November 15, 1941.

[7] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:103, April–May–June, 1941.

[8] J. Barnard Gibbs, "The Inter-American Coffee Agreement," *Foreign Agriculture*, 5:165–171, April, 1941. See also Paul Daniels, "The Inter-American Coffee Agreement," *Law and Contemporary Problems* (School of Law, Duke University), 8:708–720, Autumn, 1941.

second, the protection of United States consumers against unreasonable coffee prices; third, the working out of satisfactory plans to store surplus coffee that could not be marketed because of war; fourth, the avoidance of drastic changes in existing trade practices. Since the agreement involved the United States, importing nearly 50 per cent of all coffee entering world trade, and the fourteen Latin American republics, producing 85 per cent of the world's supply, it was felt that these purposes could be achieved.

The agreement provides for the establishment of three basic quotas:[9] first, a United States annual quota of imports from Latin American signatory countries of 15,545,000 bags; second, a quota of 11,612,000 bags divided among the Latin American producing nations for sale outside the United States; third, a quota of imports into the United States of coffee from non-Latin American countries of 355,000 bags. This United States quota has been allocated to various Latin American producers on the basis of past shipments, Brazil and Colombia being initially allotted 12,450,000 of the 15,545,000 bag total. Brazil and Colombia also received the bulk of the non-United States quota. The above figures, of course, are subject to frequent change and merely indicate the general mechanism and proportions of the plan.

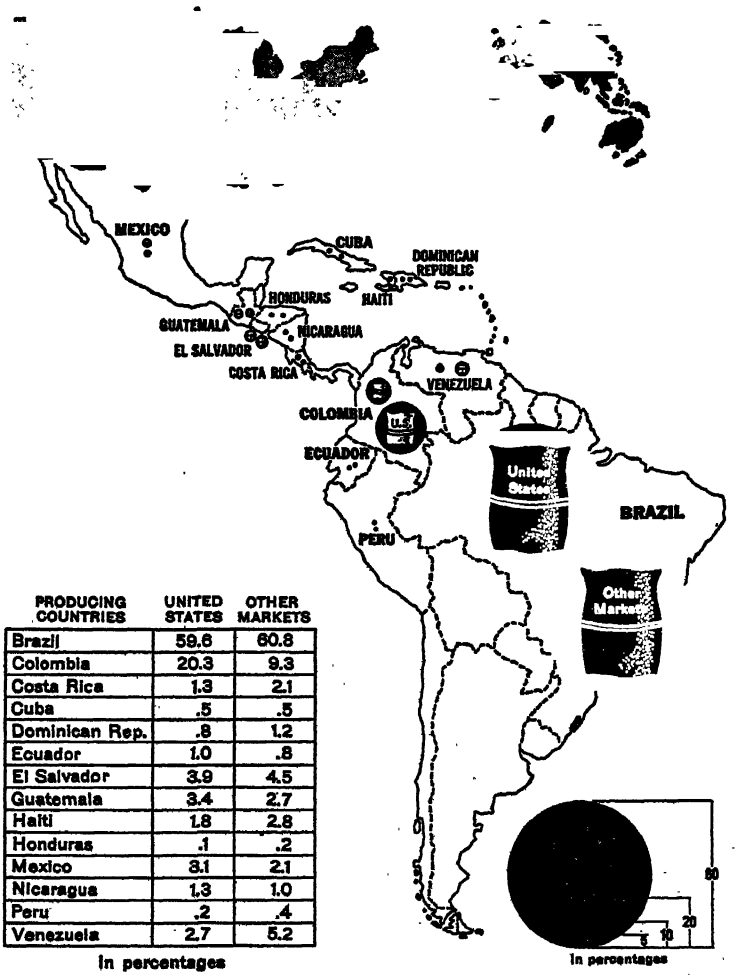
The administration of the Inter-American Coffee Agreement has been in the hands of the Inter-American Coffee Board. The board, which convenes in Washington, consists of one delegate from each signatory nation, with votes generally distributed on the basis of one vote for each nation. Exceptions are Brazil (nine votes), Colombia (three votes), and the United States (twelve votes). Since there are but thirty-six votes in all, this trio of nations obviously dominates the agreement, although a balance of power frequently exists. The board can revise quotas upward or downward periodically, subject to certain limitations. The object of such revisions is to adjust current supply to demand. If one or more governments representing 20 per cent or more of the total quotas withdraw, the agreement automatically terminates.

This plan went into partial effect in April, 1941, retroactive to the quota year beginning in October, 1940. By December, 1941, all signa-

[9] U. S. Department of State, *Treaty Series* 970. For the nations signatory to the agreement and receiving these quotas, as well as for a general recapitulation of hemispheric cooperation, see Appendix, Table 38, p. 430.

BASIC COFFEE QUOTAS

ALLOCATION FOR U. S. AND OTHER MARKETS*



PRODUCING COUNTRIES	UNITED STATES	OTHER MARKETS
Brazil	59.6	60.8
Colombia	20.3	9.3
Costa Rica	1.3	2.1
Cuba	.5	.5
Dominican Rep.	.8	1.2
Ecuador	1.0	.8
El Salvador	3.9	4.5
Guatemala	3.4	2.7
Haiti	1.8	2.8
Honduras	.1	.2
Mexico	3.1	2.1
Nicaragua	1.3	1.0
Peru	.2	.4
Venezuela	2.7	5.2

In percentages

* Taken from data in Barnard Gibbs, "The Inter-American Coffee Agreement," *Foreign Agriculture*, 5:167, April, 1941.

tory nations had ratified and the plan went into full force. Its subsequent course has not been without conflicts of interest between the producing countries, desiring high prices, and the United States, who has hoped to keep prices at moderate although profitable levels. Brazil and Colombia began to fix minimum prices for their exports, which aroused some complaint in the United States.[10] This action, coupled with price rises which had started months earlier, forced prices to rather high levels. Subsequent adjustments of quotas and assurances that minimum prices would not exceed market prices which would exist under normal operation of the system tempered these difficulties. In December, 1941, the United States Office of Price Administration issued a schedule of maximum prices for green coffee, and the Coffee Board acquiesced. Since that time, acute shipping shortages have limited shipments, impelled pressure for higher prices, and threatened at least temporary breakdown of the entire program. The United States, however, has continued to purchase according to quota, much of the coffee being stored in Latin American warehouses.

The actual success or failure of this particular quota system is perhaps a moot point, since it has operated for a relatively short period and has been harried by general economic dislocation. From the vantage point of Latin America, higher prices achieved in the United States have taken up some of the slack caused by loss of other markets. Prices have risen somewhat in the United States, but exports made possible by coffee purchases have also been shipped at higher prices. It must be noted, however, that the agreement has not been designed to eliminate the chronic excess of coffee-producing capacity which has plagued the industry for so long. Brazil continues to destroy part of its coffee crop, 35 per cent of the 1941–1942 coffee crop being ordered destroyed and much of the remainder being stored.[11]

Perhaps the most significant aspect of the Inter-American Coffee Agreement, however, is that it is not merely a unilateral or even a bilateral arrangement. If it merely encompassed production or export quotas by producing nations, without regard to the consumers, it would

[10] "Annual Economic Survey of Latin America in 1940," *Commercial Pan America*, 10:103, April–May–June, 1941; also John de Wilde, "Wartime Economic Cooperation in the Americas," *Foreign Policy Reports*, 17:290–291, February 15, 1942.

[11] "Big Drop in Coffee Crop," *Foreign Commerce Weekly*, 4:8–9, August 9, 1941.

merely constitute another form of cartel. If the agreement consisted merely of import quotas established by the United States, it would also be no innovation. The fact, however, that dominant consumers and dominant producers of a staple product have been able to reach an understanding of this magnitude is indeed significant. Whether this agreement is simply a product of the depression and war, or instead represents an initial step in a long-range program to introduce stability into the industry, cannot yet be determined.

Other Attempts at Hemispheric Commodity Agreements

Several comparable attempts to introduce the principle of the Inter-American Coffee Agreement into other spheres have not been particularly successful. The Inter-American Financial and Economic Advisory Committee has also attempted to evolve a marketing agreement for cacao, but the attempt has met with difficulties.

Superficially, the problem of cacao is no more difficult than that of coffee. Latin American republics produce only about 35 per cent of world output, whereas the United States usually imports about 40 per cent of world shipments.[12] Latin American supplies of the higher grades of cacao, however, have long exceeded our imports of these grades. In normal years, the United States imports more than half of her requirements from non-hemispheric sources, and Latin American producers sell roughly two-thirds of their output to this country.[13]

World War II hit those nations which had marketed a large share of their cacao exports in Germany or elsewhere in Europe with special severity. Ecuador and Venezuela, for example, in 1937 and 1938 had sold over half of their exports to Germany and less than one-fourth to this country.[14] During 1938, 25 per cent of Latin American cacao exports had been shipped to Europe,[15] so a number of other cacao industries suffered dislocation. This curtailment of markets accentuated

[12] B. C. Merriam, "World Cacao Production and Trade," *Foreign Agriculture*, 5:33–60, February, 1941.

[13] Jaime Zuloaga, "The International Economic Relations of Latin America," *Commercial Pan America*, 10:9, January, 1941.

[14] U. S. Tariff Commission, *Latin America as a Source of Strategic and Other Essential Materials*, p. 219.

[15] *Ibid.*

price declines, although cacao prices had been disastrously low since 1927.[16]

Although diversion of imports from Africa to Latin America might be feasible, this diversion would involve a major dislocation in the cacao marketing pattern. It has been suggested, however, that a marketing agreement might be concluded in either one of two ways.[17] First, the cooperation of Gold Coast and Nigerian producers could also be obtained. Second, the United States could independently set up a quota for the domestic market and assign Latin American countries large enough shares to dispose of most of their exportable surpluses. Achievement of either solution, however, has been rendered difficult by acute shipping shortages.

Efforts to discover a solution to the acute wheat surplus problem have also been largely unavailing. Argentina, Canada, and the United States all produce very large surplus quantities of wheat, which cannot readily be sold to each other. During 1941, delegates from these nations met sporadically in Washington, together with representatives from Australia and the United Kingdom, in order to discuss methods of disposing of wheat surpluses.[18] At the close of July, 1941, supplies equalled normal world consumption over a two-year period. Production control, marketing control, and post-war utilization of wheat in war-scarred nations were all discussed. In August, 1941, a provisional agreement was arrived at and submitted to the various nations involved.[19]

A grandiose hemisphere marketing cartel, encompassing a host of surplus products, has been proposed and has attracted considerable attention. Thus far, however, such a plan has not been implemented nor even carried through the blueprint stage.

Pan American Highway

Another hemispheric cooperative project that has already made considerable progress is the Inter-American or Pan American Highway. Development of highway transport is of such pivotal importance

[16] Frank Nattier, "The U. S. Market for Brazilian Exports," *Commercial Pan America*, 10:34–51, February–March, 1941.
[17] John de Wilde, *op. cit.*, p. 292.
[18] *Ibid.*
[19] *Ibid.*

throughout Latin America that cooperation in this sphere is especially significant. Since the function of such a traffic artery has been discussed in a previous chapter, it will suffice at this point to describe briefly the history of this project to date. Thus far, it has not gone beyond the unilateral or bilateral stages, although proposals for multilateral, collective action have not been lacking.

A Pan American Railway Committee was founded in 1889, with the purpose of building a railroad from New York to Buenos Aires.[20] Although a substantial portion of this project was completed, technical difficulties, lack of continued interest, and the growing competition of other forms of transport caused huge gaps to remain. Completion of the substantial trackage still lacking seems very remote. With the gradual loss of momentum of this project, the Pan American Highway project was launched.[21] The Fifth International Conference of American States, meeting in Santiago in 1923, resolved that action on such a road should be encouraged. In 1936, the Inter-American Conference for the Maintenance of Peace, meeting in Buenos Aires, prepared a convention on the Pan American Highway which was signed by twenty-one republics and subsequently ratified by eleven. Most of the impetus toward actual construction of the road has come since 1936, especially with the outbreak of World War II.

A number of proposals have been made concerning the financing of the Pan American Highway, since many of the sections requiring large outlays are in relatively poor nations.[22] They include refunding of Central American foreign debts, and issuance of new loans by the Reconstruction Finance Corporation; the creation of a Central American Bank of Issue with branch banks in each country; financing through tolls collected on completed sections; and direct financial assistance by the United States. Thus far, the bulk of the financial burden has been assumed jointly by the United States and the various local governments, at least in Central America.

The first United States appropriation for such purposes was a $50,000 research grant in 1930.[23] Other relatively small appropriations for sur-

[20] Warren Kelchner, "The Pan American Highway," *Foreign Affairs*, 16:723–727, July, 1938.
[21] U. S. Department of State, *Bulletin*, May 10, 1941, pp. 557–559.
[22] Warren Kelchner, *op. cit.*, p. 726.
[23] U. S. Department of State, *Bulletin*, May 10, 1941, pp. 557–559.

vey, technical, and minor construction work were made during the next decade. The major impetus to the road, however, has been furnished by the Export-Import Bank and by a $20,000,000 Congressional authorization. As indicated in a previous chapter, the bank made many such loans during the last half of the 1930–1939 decade, including several loans to Central American nations. With World War II, the apparent military value of the road was such as to hasten construction and encourage further extension of credit. The program of assistance was vastly accelerated, however, when Congress appropriated $20,000,000 in 1941 for completion of certain Central American segments of the road.[24] This sum was to be extended to Central American nations that had not completed their portions of the highway. The United States was to furnish not more than two-thirds of the financing in each nation, with the remainder being furnished by the local governments. Assurances were also to be given as to utilization of the road, purchase of essential construction materials, and related matters.

The first Central American nation to make a request for such assistance was Costa Rica, who did so in January, 1942. She was to receive $5,400,000 from Congress, borrowing $2,200,000 from the Export-Import Bank and using $400,000 of her own machinery supplies to meet her one-third of the cost.[25] Many of these Central American nations have turned to the Export-Import Bank for assistance in meeting their share of the financial burden, but these sums must be repaid.

As of early 1942, $78,365,000 had been appropriated by Congress, loaned by the Export-Import Bank, or otherwise earmarked for construction of the road.[26] Of this total, $18,365,000 consisted of appropriations and loans prior to the new legislation. The new act involved an additional $20,000,000, whereas $30,000,000 was to be advanced to Mexico over a short span of years, as stipulated in a late 1941 agreement.

Progress on certain sections of the road has been so rapid that a summary of progress is soon outdated, but other sections constitute virtual "bottlenecks." Secrecy has also been imposed since late 1941, because of the military as well as economic importance of the project. As of

[24] For discussion of this measure, see 77th Congress, 1st Session, *Hearings before the Committee on Foreign Affairs, House of Representatives, on S. 1544.* The text is found in 77th Congress, *Public Law 375.*

[25] "Lifeline of the New World—the Pan American Highway," *Foreign Commerce Weekly,* 6:3–5, 34–35, January 24, 1942.

[26] *Ibid.*

1941, before much of the war-inspired construction began, 71 per cent of the proposed highway was paved or drivable in any weather.[27] Another 19 per cent was passable only in dry weather, and 10 per cent was trail or otherwise impassable to motor traffic. The route has been paved to a point some 200 miles beyond Mexico City, and from there 43 per cent of the distance to the Panama Canal has been drivable in any weather. Much of the remainder, however, has not been passable at all, and a number of years may be required to complete a few of these segments. The stretch from the Canal Zone to Colombia has been a formidable barrier of swampland and jungle, although cars can be shipped via an extended detour to Caracas, Venezuela. Three-fourths of the South American route has been paved or is drivable in any weather, most of this improvement being under local initiative. Further development of the entire highway may be expected, although some sections can probably not be undertaken until the post-war era is well advanced.

The impetus of United States entry into World War II was largely responsible for the drastic accentuation of Pan American Highway building in Central America during 1942. United States appropriations, loans, intensified survey work, and local cooperation resulted in rapid construction of several sections of the road. The goal of this speeded-up program was a passable all-weather highway between the United States border and Panama by May, 1943. The exigencies of tropical weather, of course, have been but one factor rendering achievement of set construction goals rather uncertain. It must also be noted that the wartime spurt was actuated largely by a desire to drive an overland route to the Panama Canal Zone and did not involve construction through the jungles of southern Panama. Nevertheless, 1942, the first year of formal war for the hemisphere, witnessed the all-time peak of Pan American Highway construction up to that date. A shortage of road-building machinery, however, became increasingly acute.

It should be noted, however, that much of this road merely connects capital cities and that numerous feeder roads are needed to fulfill the economic objectives of the project. Most portions of the highway also differ in width, construction, and permanence, and eventual uniformity will probably be necessary. The Pan American Highway, however, is

[27] U. S. Department of Agriculture, *The Pan American Highway System*, February, 1941.


THE PAN AMERICAN HIGHWAY
WHEN COMPLETED
UNITED STATES
Laredo
MEXICO
Mexico City
Guatemala
El Salvador
Managua
San Jose
Panama
La Guaira
Caracas
VENEZUELA
GUIANAS
Buenaventura
Bogota
COLOMBIA
ECUADOR
Quito
Guayaquil
Pucalpa
PERU
Lima
BRAZIL
BOLIVIA
La Paz
PARAGUAY
Asuncion
Rio de Janeiro
CHILE
Santa Fe
Porto Alegre
URU.
Valparaiso
Santiago
Buenos Aires
Montevideo
ARGENTINA

one of the few examples of a vast project involving hemispheric cooperation that is even approaching completion. This initiative thus far has been taken largely by local governments, especially in South America, with United States aid in certain areas. Since the most difficult and costly sections of the road lie in those countries which can least afford to build them, further cooperative action will probably be essential before the project is completed. It has been suggested that this might be one of the primary functions of the Inter-American Bank.

Continued work on the Pan American Highway has been accompanied by renewed cooperation on a broader highway front. In September, 1941, the Fourth Pan American Highway Congress, convening in Mexico City, attempted to set the stage for further hemispheric cooperation in road building.[28] The thirty-nine resolutions produced by the Congress were in sharp contrast with the detailed technical findings of the Rio de Janeiro Congress of 1929. Many subjects having distinctly international significance were discussed, resolutions of this type covering many spheres of potential cooperation. The Congress suggested that a common financial plan for constructing the Pan American Highway should be evolved; that the road be formally inaugurated in October, 1942; and that the highway be extended by ferry to Cuba and other insular republics. Other recommendations proposed construction of international bridges; protection of motor-fuel supply in non-oil-producing countries; uniform traffic rules and regulations, licensing requirements, accident statistics, and vehicle inspection; and establishment of an Inter-American Federation of Automobile Clubs.

Agricultural Cooperation

Another sphere in which hemispheric cooperation has penetrated is agriculture. Although much of this agricultural cooperation was originally at the initiative of the United States, it has spread far beyond its original confines. As the various Latin American nations have established their own experiment stations, surveys, and plantations, and as such institutions as the Inter-American Institute of Agricultural Sciences have been established, agricultural cooperation has gone far beyond unilateral action.

[28] E. W. James, "More Highways for the Americas," *Bulletin of Pan American Union*, 75:677–681, December, 1941.

The United States Department of Agriculture, together with other agencies of the government, have long been interested in Latin American agricultural resources. On their own initiative, several agencies of the United States government have surveyed prospects to the south. During the 1920's, for example, both the Department of Agriculture and the Bureau of Foreign and Domestic Commerce thoroughly investigated possibilities of a Latin American plantation rubber industry.[29] Interest in this subject lessened as the furore over the Stevenson restriction scheme diminished, but it was sharply revived in the late 1930's and early 1940's. Technicians of the Department of Agriculture have thoroughly re-examined Latin American rubber potentialities, financed by an initial appropriation of $500,000.[30] Five groups were sent out to survey potential rubber-growing areas in Mexico, Central America, Haiti, the Dominican Republic, and tropical South America. Results of this extensive research have since been utilized in the vast program to launch a hemispheric plantation rubber industry.

The Federal Experiment Station at Mayaguez, Puerto Rico, is studying production problems of such tropical products as cinchona, essential oils, industrial oils, coarse fibers, and drug plants. Further assistance of a unilateral type has involved training of technicians from Latin America by United States agencies.[31] Under such programs, trainees are working in the Rural Electrification Administration, the Soil Conservation Service of the Department of Agriculture, and the four great regional laboratories of the Department. In the last instance, some chemists from Argentina have been studying industrial uses of surplus agricultural products. Periodic tours in the United States by Latin American agricultural students and professors have also been arranged.

As the interest of the United States government in Latin American agricultural possibilities became evident, research on a bilateral basis was widely practiced. At the request of various nations, technical missions have been sent, not merely to investigate rubber and other strate-

[29] See U. S. Department of Agriculture, *Bulletin 1422;* U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Series 23* and *Trade Promotion Series 40.*

[30] John de Wilde, "Economic Projects for Hemisphere Development," *Foreign Policy Reports,* 17:300–301, March 1, 1942.

[31] E. N. Bressman, "Projects in Inter-American Agricultural Cooperation," *Bulletin of Pan American Union,* 76:74, February, 1942.

gic resources, but wider agricultural frontiers.[82] These missions have been under the direction of the Office of Foreign Agricultural Relations of the Department of Agriculture.

As part of a long-term plan for economic collaboration between the United States and Bolivia, an Economic and Resources Mission was sent to study the agricultural and mineral potentialities of the country. It is believed that the findings of the mission will be translated into actual developmental operations to fit the mutual needs of the two countries.

A survey mission has also studied areas of Mexico and Honduras, with particular regard to possibilities of development of complementary agricultural products. Crops whose possibilities were investigated are abaca, cinchona, kapok, and licorice.

Another small survey mission was sent to Peru to participate in a general exploratory survey of the agricultural resources of that country. Crops which have been studied are medicinal and drug plants, as well as fiber flax.

A detailed survey of Ecuadorean agriculture was also launched. This survey is to result in a program of agricultural diversification with special emphasis upon crops for which there is usually a thriving export market. The mission has studied crop and livestock production, the country's dependence on exports and imports, soil types, climatic conditions, and other factors influencing an agricultural economy. Special attention is being devoted to plantation rubber, rehabilitation of a high-quality cacao industry, and production of coarse wools for export.

Another significant mission was to help implement a proposed Cuban program of public works and general reconstruction. Specifically, the mission examined and prepared to report on projects designed to promote diversification and rehabilitation of Cuban agriculture.

The survey missions mentioned above were sent during 1941 and 1942. Although similar parties were sent to the Dominican Republic, Haiti, Paraguay, Ecuador, and Colombia during the 1938–1940 period, the program was then in its infancy. Other missions during 1941 and 1942 were concerned with soil conservation in Venezuela, sea-fishery resources in Peru, and projects in several other countries. By the close

[82] For a description of these missions and surveys, see *ibid.*, pp. 71–73; and John de Wilde, "Economic Projects for Hemisphere Development," *Foreign Policy Reports*, 17:298–301, March 1, 1942.

of 1942, technical consultation was under way with most of the other republics of Pan America.

These surveys, conducted in cooperation with the respective governments, have resulted in the establishment of a number of experiment stations, plantations, and ambitious agricultural projects elsewhere in the hemisphere. After the extensive United States survey of Latin American rubber-producing possibilities, other nations have enthusiastically launched supplementary research programs.[33] The other republics have, to date, collectively appropriated for such research in their countries an amount at least equal to that appropriated by Congress. Centers for rubber research have been established in Brazil, Haiti, Costa Rica, and several other countries, and nurseries have been created in a host of locations. Almost all the rubber-producing nations of Latin America have entered into informal or formal agreements with the United States to collaborate in further rubber research. Similar cooperation in other spheres has resulted in locally financed research in the cultivation of a number of other agricultural commodities, many of them complementary and strategic in nature.

Perhaps the most spectacular indication of the prevailing drift toward active, rather than passive and unilateral, agricultural cooperation is the establishment of joint plantations and agricultural development projects. In several countries, including Brazil, Costa Rica, and Haiti, cooperation has gone far beyond the purely research stage.

In Brazil and throughout most of the vast area traditionally producing wild rubber, joint efforts are being made to increase wild rubber output. As a result of the agreement with Brazil in March, 1942, a strenuous attempt is being made by both the United States and Brazil to increase such production far beyond pre-1942 levels.[34] Concurrently, schemes have been launched involving United States financing, technical aid, and encouragement of plantation rubber ventures in Brazil and elsewhere in Latin America. The wartime emphasis, however, has been on wild rubber output, since plantation development must of necessity be on a long-range basis.

In Costa Rica, a potential producer of plantation rubber, another joint project has been launched. Through a June, 1941, exchange of notes,

[33] E. N. Bressman, *op. cit.*, p. 70.

[34] David Popper, "U. S.–Brazilian Economic Accords of March 3, 1942," *Foreign Policy Reports*, 17:306, March 1, 1942.

Costa Rica provided lands for planting, a site for a central experiment station, and a site for residences.[35] She was also to allow needed materials to enter duty free, to allow the importation of seeds and stumps, and to control redistribution of rubber trees. On the other hand, the United States was to provide a central experiment station and most of the funds.

As mentioned previously, however, the most ambitious and perhaps the most significant joint project thus far launched has been in Haiti. In May, 1941, the Haitian-American Agricultural Development Corporation was formed. This company is to produce rubber, bananas, improved cacao, lumber, naval stores, essential oils, fibers, spices, and handicrafts. Its purpose is the diversification of the local economy, production of needed complementary products for export, and the relief of population pressure. During the first six months alone, over 3,500 Haitians were employed, and a large forest and two plantations were worked.[36] Actual land holdings have been small, since a large percentage of Haitian farmers own their own small plots of land. The Corporation has an initial capital of $1,000,000, provided by Haiti but pledged to the Export-Import Bank as security for a credit of $5,000,000. The government paid for its capital stock by leasing 150,000 acres of forest land to the company. Although the project remains in its initial stages and plantations have not yet been fully established, the Corporation has very broad powers and can expand about as fast as is technically feasible. It is planned that ultimately contracts with farmers holding adjacent areas will be concluded, the company furnishing seed, supervision, and a ready market. Those instrumental in launching and operating the project believe that the train of events set in motion by the Corporation may eventually double the national income of Haiti. Significantly, the board of directors of the Corporation is composed equally of Haitian and United States citizens.

Although the precedent-setting project involves many products, rubber is its core. Numerous surveys indicate that climatic and soil conditions in Haiti are suitable for its production, and a dense population precludes the usual Latin American shortage of labor. The Corporation started out by planting 7,500 acres of rubber in four different places, but hopes to expand to 70,000 acres and 35,000 tons of rubber per

[35] U. S. Department of State, *Executive Agreement Series* 222.

[36] "Report from Haiti," *Agriculture in the Americas*, 2:87–90, May, 1942.

year.[37] The latter total would amount to more than 5 per cent of average United States rubber consumption in pre-war years.

United States technical assistance, financing, and encouragement of such projects as those in Brazil, Costa Rica, and Haiti are designed to help the United States as well as the other nations involved. Not only do such projects provide a future source of strategic and critical materials, but they are also calculated to increase Latin American purchasing power and, presumably, the ability to import. Indeed, most of the projects just mentioned can be but of very limited assistance in the prosecution of the war, since most of them require at least a decade to reach full stature. They are, however, first steps in a broader, long-range program of hemispheric agricultural development.[38] Such a program would perhaps involve a threefold approach: assistance in improving the domestic economy of each country, including the introduction of new subsistence crops; commodity cooperation, especially with respect to agricultural products of which there is a hemispheric surplus; and development of complementary agricultural crops.

Pan American agricultural cooperation, starting with unilateral assistance by the United States, spreading to mutual research, and resulting in joint production ventures, has also assumed the form of institutional, multilateral cooperation. In July, 1942, for instance, the Second Inter-American Conference on Agriculture was held in Mexico City. The Conference was concerned with a variety of technical questions involving agronomy, climatology, forestry, and similar matters, but it was also preoccupied with wartime and post-war questions.[39] Such questions included expansion of rubber output; the role of hemispheric agriculture in winning the war; wartime problems and dislocations; inter-American commercial organization and tariff policies; and post-war problems of agricultural planning and development. Such other broad and significant problems as agricultural credit, cooperatives, and rehabilitation of rural populations were also discussed. This Conference was attended by representatives of all twenty-one American republics, and included a United States delegation of eighty-two persons. Among the thirty-

[37] Thomas Fennell, "Haiti Makes Rubber History," *Agriculture in the Americas*, 1:7–11, 15, July, 1941.

[38] U. S. Department of Agriculture, *Inter-American Cooperation in Agriculture*, by E. N. Bressman, January 6, 1942, pp. 8–10.

[39] For the Conference agenda, see "Second Inter-American Conference of Agriculture," *Bulletin of Pan American Union*, 76:332–334, June, 1942.

eight resolutions were those providing for closer cooperation concerning agricultural surpluses, wider cultivation of rubber trees and shrubs, broader facilities for agricultural insurance, inclusion of agronomists on diplomatic missions, and the creation of an Inter-American Agricultural Credit Bank.[40]

Hemispheric cooperation in agriculture has also taken the form of permanent institutions and agencies. The American Society of Agricultural Sciences was established in 1940, in response to a recommendation of the Eighth American Scientific Congress.[41] The Society was established by delegates from eleven Latin American republics and the United States. Its aims are to advance scientific agriculture, to disseminate scientific findings, to provide a coordinating agency, and to discuss hemispheric agricultural problems.

Early in 1941, an Inter-American Committee for the Dairy Industries was organized to "increase the consumption of dairy products and decrease the production of agricultural surpluses in Latin America."[42] This move was a manifestation of the broader drive to stimulate production of a wide variety of foodstuffs and to improve Latin American standards of nutrition. The Committee has a governing board consisting of United States officials and representatives of the Pan American Union, as well as a Council of Sponsors including fifteen American Ministers of Agriculture. It has been surveying Latin American dairy industries, laying plans, and perfecting its organization. At present, dairying in Latin America is little developed except in Argentina, Brazil, and parts of a few other countries. Plans for the development of dairy industries in the Bogotá area of Colombia are under way.

A project to establish an Inter-American Agricultural and Mineral Technical Advisory Service has also been launched.[43] Technical assistants are to be made available to agricultural and mineral industries of the other American republics. These men are to assist such industries, report upon agricultural and mineral resources and potentialities, and collaborate with the Inter-American Development Commission.

[40] "Mexico—Conferences and Agreements," *Foreign Commerce Weekly*, 8:14, September 19, 1942.

[41] E. N. Bressman, *op. cit.*, pp. 73–74.

[42] John de Wilde, "Economic Projects for Hemisphere Development," *Foreign Policy Reports*, 17:299, March 1, 1942; and "Dairy Industries Survey," *Agriculture in the Americas*, 1:16, August, 1941.

[43] E. N. Bressman, *op. cit.*, p. 73.

The most widely publicized venture in hemispheric agricultural cooperation has been the launching of the new Inter-American Institute of Agricultural Sciences. For some years, proposals to establish an Institute of Tropical Agriculture have attracted widespread attention. In 1930, at the First Inter-American Conference on Agriculture, the proposal was made but no subsequent action was taken.[44] In September, 1941, the Coordinator of Inter-American Affairs announced the establishment of an Agricultural Division whose primary function was to be the creation and operation of the Institute. Surveys were made to determine the best location for the institution, which was to be a research, experimentation, education, and planning center for all America. In June, 1942, the Governing Board of the Pan American Union approved measures for the organization of the Institute, now renamed and enlarged to Inter-American Institute of Agricultural Sciences.[45] The new Institute is to be a continental research and experiment station to coordinate agricultural science in all the republics of the hemisphere. The Institute is to encourage and advance agricultural training and education, and will set up experiment stations, farms, plantations, ranches, laboratories, and educational centers. The location of the Institute and its branches was not finally determined at that time, although the first experiment station has since been established in Costa Rica.

Non-Agricultural Development Cooperation

Hemispheric cooperation along mineral, industrial, or other developmental lines has also been given a new impetus by events of the past few years. Especially under the pressure of wartime requirements of strategic and critical minerals, as well as the enforced industrial self-sufficiency of many areas, cooperation in the non-agricultural sphere has grown apace.

As in the instance of agricultural cooperation, hemispheric efforts in these other spheres have proceeded from unilateral efforts of the United States, through joint ventures, to multilateral, institutional cooperation. For many years, various agencies of the United States government have attempted to encourage development of Latin American mineral and

[44] *Ibid.*, pp. 66–69.

[45] "New Inter-American Institute of Agricultural Sciences," *Foreign Commerce Weekly*, 7:39, June 20, 1942.

industrial potentialities. The Bureau of Mines, for example, has undertaken mineral surveys and has encouraged the perfection of new processes applicable alike to the exploitation of domestic and Latin American resources. This technical assistance has been supplementary to efforts of United States private enterprise, which has attempted to improve technology in petroleum, copper, bauxite, tin, and other mineral fields. Subsidiaries of one large United States corporation have succeeded in developing economically expedient techniques of exploiting large but low-grade and hitherto uneconomic reserves of Cuban manganese and nickel.[46] Similar intensive efforts by private corporations and the United States government are being launched in many other spheres. These surveys, explorations, and experiments have been encouraged by the Lend-Lease Program, by Export-Import Bank development credits, and by recent broad development projects. Further exploration of mineral deposits, improvement of airfields, airways, and radio services, and development of new industries are now under way.

United States technical assistance has paved the way for active, joint projects of non-agricultural development. As mentioned in previous chapters, the United States has entered such programs as joint development of Mexican metal industries; mutual development of Brazilian iron and steel industries; encouragement of Chilean, Peruvian, Brazilian, and Mexican industrialization; expansion of Bolivian oil production; and many other ventures. During 1941 and 1942, new programs of this sort were launched with increasing frequency. Although some of them, particularly those concerned with vital war materials, were largely inspired by World War II, many are also of a long-range nature.

Significantly, in some cases new technological discoveries arising through research led directly to joint development of resources. An example was the new process to develop large-scale Cuban nickel resources. After announcement of the perfection of this process in 1942, the Reconstruction Finance Corporation extended $20,000,000 for building plant facilities in Cuba.[47] A private firm operates the plant for the government corporation, which hopes the Cuban property can breach the gap between Canadian production and wartime and post-war needs.

[46] See "Cuban Manganese," *Time*, 35:64, April 1, 1940; William Batt, "Nickel from Cuba," *Foreign Commerce Weekly*, 7:4–5, 37–38, May 30, 1942.

[47] *Ibid.*, latter citation.

Although United States loans, technical aid, and favorable tariff treatment have facilitated the launching of such projects, the respective governments have also cooperated. They have provided labor, some capital, favorable legislation, reduced tariff rates on raw materials and machinery, and other aids. In the new Brazilian steel industry, for example, the United States loaned large sums, helped supervise the establishment and operation of the plant, and, together with England, guaranteed a market. Brazil, however, retained ownership of the new property, undertook most of the actual construction and operation, and cooperated in many other ways.

As in hemispheric agricultural cooperation, institutional action on a multilateral scale has finally resulted. In the future, an increasing number of projects are likely to be facilitated by the Inter-American Development Commission.[48] This agency was organized in June, 1940, as a working unit of the Inter-American Financial and Economic Advisory Committee. Its work originates in two basic factors: uneven economic development among the nations of the hemisphere and uneven distribution of technical experience and capital. It undertakes to foster inter-American cooperation by stimulating the production of non-competitive mineral, agricultural, and forestry products, and by encouraging manufacturing. Although not itself a financing agency, it encourages private, semi-official, and official lending agencies to cooperate in developmental projects. It has established National Commissions in every nation, these agencies being designed to supply information as to potentialities and to coordinate activities. The Development Commission has not yet been in operation long enough to measure its long-term significance. Yet, even the early years of its operation witnessed some concrete achievements along the lines mentioned above. It furnished technical and cost data relevant to a small plant for the production of high-grade tapioca starch to the Brazilian government and to Brazilian producers. The Commission has also attempted to persuade United States merchants and department stores to import Latin American handicraft articles. It has also organized a Merchandising Advisory Service to assist United States distributors in finding Latin American sources of products hitherto imported from elsewhere and in the marketing of

[48] This description of the work of the Commission is taken from Inter-American Development Commission, *Inter-American Development Commission*, March 31, 1942.

Latin American products. It has also published informational bulletins, collaborated with the Export-Import Bank and the Office of the Coordinator of Inter-American Affairs, and served both as a clearing house for technical information and as a go-between for interested parties in developmental projects.

Such institutional cooperation may be implemented in the future by the Inter-American Bank. In a letter from the President of the United States, transmitting the draft convention of the Inter-American Bank to the Senate, this statement was included:

> It is my opinion that the establishment of the Bank would be a step of major importance in the development of inter-American financial and economic cooperation. · · · It has been apparent for some time that there has existed a wide zone of economic and financial activity among the American nations for which the existing machinery of cooperation has been inadequate. The Bank, generally speaking, is designed to promote a fuller development of the natural resources of the Americas, to intensify economic and financial relations among the American republics, and to mobilize for the solution of economic problems the best thought and experience in the Americas.[49]

Other Institutional Cooperation

Hemispheric economic cooperation has been most noteworthy in the spheres mentioned early in the chapter but it has extended into other realms. Indeed, in certain other spheres cooperation of a fairly well-organized, clearly defined basis had appeared well before World War II. Many of these activities have been initiated and guided by the Pan American Union, which has long been active in economic, political, social, and research fields.[50] Indeed, the Pan American Union has been a pioneer in the field of institutional cooperation in the Americas. In recent years, the Inter-American Financial and Economic Advisory Committee, a creature of the Union, has acted as a sort of "holding company" and advisory board for a large number of cooperative ventures.

[49] 76th Congress, 3rd Session, *Hearings Before a Subcommittee of the Committee on Foreign Relations, Senate, on Executive K.*

[50] For insight into the activities of the Pan American Union, see its monthly publication, *Bulletin of Pan American Union.*

With the encouragement of the Union and the governments of several Pan American nations, the Inter-American Statistical Institute of Washington has been established. The Institute was founded for the purpose of securing uniform and comprehensive statistical service in the Americas. The United States supplies about half the financial support, since nations are asked to contribute at the rate of 20 cents per 1,000 persons and the United States has roughly half the people.[51]

In January, 1942, the First Pan American Congress of Mining Engineering and Geology was held in Chile.[52] The Congress discussed a number of questions of distinct economic as well as technical import. These matters included mining, geology, fuels, ore dressing and concentration, metallurgy, nitrate problems, mining policy, legislation, economy, and mining education.

A number of other hemispheric conferences, congresses, and agencies are concerned in part with economic questions. Some of these groups are composed of private individuals; others consist of representatives of the various nations discussing particular problems. Conferences on such subjects as maritime problems and national merchant marines have been mentioned in a previous chapter. Other groups, although primarily political or otherwise non-economic, are at least indirectly concerned with economic factors. Among these agencies are the Second Inter-American Congress of Municipalities, the Second Annual Conference of National Committees of Intellectual Cooperation, and the Fifth Conference of the Inter-American Bibliographical and Library Association, all of which met late in 1941 or early in 1942.[53]

An interesting wartime development affecting hemispheric cooperation was the March, 1942, establishment of an Anglo-American Caribbean Commission.[54] This Commission was created for the purpose of strengthening social and economic cooperation between the United States and its possessions and bases in the Caribbean and the United Kingdom and her colonies in that area. Although the immediate impetus behind this Commission was the emergence of acute wartime problems, post-war cooperation was also envisaged.

[51] 77th Congress, 2nd Session, *Senate Report 946.*

[52] "Conferences Held in the Americas," *Bulletin of Pan American Union,* 76:419, July, 1942.

[53] *Ibid.*, pp. 417–420.

[54] U. S. Department of State, *Bulletin,* March 14, 1942, pp. 229–230.

Proposed Hemispheric Cooperation

Pan American cooperation in the economic sphere has already attained proportions scarcely anticipated a decade ago, but it retains something of a bilateral, emergency, wartime nature. Other, more sweeping schemes for hemispheric cooperation, such as the International Stabilization Fund previously mentioned, have been suggested but not yet adopted. Some of them involve an extension of lower trade barriers, often in the direction of regional or hemispheric customs unions. Others involve some version of hemispheric autarchy, often based upon the assumption that a world economy is scarcely obtainable.

A few of these broader proposals are of interest, although they may be very controversial and far from attainment. Just as customs unions have grown in South America, so also periodic proposals for a North American customs union are advanced. Many of these are built upon a Canadian–United States free trade; [55] others encompass such countries as Mexico and Cuba. Although admittedly the nations of North America are oriented in large part toward each other, it remains questionable whether such a policy is compatible with empire and other relations. In any event, the frequently implicit assumption that North America forms a single, integrated, economic unit is clearly false.

Frequent proposals for a single customs union embracing all the Western Hemisphere, or at least Pan America, have also been advanced. Some of them assume that Pan America constitutes a single region; others the emergence of an isolated, self-sufficient Pan America; others propose a hemispheric customs union as a transitionary step toward a true world economy. In any event, such developments as the Reciprocal Trade Agreement Program, removal of tariff barriers on strategic raw materials, and special commodity arrangements appear to furnish at least a point of departure for such a sweeping scheme. The marked extension of Export-Import Bank loans, plus Lend-Lease treasury stabilization, and other credit, may also exert a strong pressure in that direction. If loans, whether public or private, are to be serviced and repaid, the debtor must obviously be allowed to move goods into the creditor country. It is significant in this respect that revision of

[55] Jean-Charles Harvey, "North American Customs Union," *Living Age*, 360:459–461, July, 1941.

Lend-Lease pacts with Latin America in the direction of compliance with the "master" agreement and a liberal world economy is now being pressed.

It has been claimed that hemispheric free trade, or at least lowering of trade barriers, would involve certain positive trade advantages to both the United States and Latin America.[56] On the part of the United States, consumers might pay lower prices; depletion of domestic natural resources would be delayed; Latin American imports from the United States might be somewhat increased; and tangible manifestation of good will would result. Concurrently, it has been suggested that Latin America would find larger markets in this country and elsewhere, and could more readily develop raw material and industrial resources.

Although such a development is clearly within the realm of possibility, it is as yet far from attainment in spite of post-1934 developments. Furthermore, such a proposal is not necessarily a complete solution to the economic problems of the hemisphere. Presumably, vast Pan American areas would retain their competitive economies, and certain products would constitute surplus commodities for the entire hemisphere. Abolition of import duties on goods from the United States would also deprive Latin American nations of their primary fiscal bulwark. Such a move would be particularly hazardous in view of the existing dislocations of the Latin American economy and the undeveloped state of many fiscal systems. It has been claimed, however, that in the long run lower costs of living and increased imports would offset these fiscal maladjustments. Suffice it to observe at this point that hemispheric free trade would involve costs as well as advantages.

In addition to such proposals for continental or hemispheric lowering of trade barriers, sweeping proposals of a different sort have also been suggested. It has been observed that, in the short run, the various countries might cooperate in moving surplus products into consumption by peoples of other countries who need them.[57] For example, while wheat and corn constitute grievous surplus problems for Argentina, vast numbers of people, even in adjacent countries, lack proper food. Again,

[56] Constant Southworth, "Toward Free Trade with Latin America," *Foreign Policy Reports*, 17:184, October 1, 1941.

[57] This proposal is advanced by Mordecai Ezekiel, "Economic Relations between the Americas," *Commercial Pan America*, 10:282–283, September–October, 1941.

while children in many areas of Pan America lack adequate carbohydrates, Cuban sugar production has often been excessive as measured by existing markets. Brazilian coffee continues to be destroyed, despite the Inter-American Coffee Agreement, although a potential market exists elsewhere. While in some areas every third child is afflicted with tuberculosis, in part because of malnutrition, vast quantities of beef and other food products cannot be sold. It has been claimed that methods similar to domestic ones in the United States might be employed. A concrete suggestion has called for the exchange of surplus prunes from the United States for surplus cacao from Brazil, to be distributed to children and others who could not buy the products in the normal course of trade. Such proposals represent, of course, an effort toward short-run amelioration of a fundamentally long-run problem. Nevertheless, it has far-reaching implications.

It has likewise been suggested that, in a longer-run period hemispheric cooperation to raise educational and health standards might be very expedient.[58] Examples of such ventures in localized areas have included Mexican educational programs, public health efforts in the Panama Canal Zone, and activities of the doctors and technicians of the Rockefeller Commission. Cooperation in this field, although undoubtedly useful and badly needed, represents a flank rather than a direct attack upon the major economic problems of Pan America.

Conclusion

Pan American cooperation, long sporadic and ineffective, was given a new lease on life after 1930. Under the impact of world economic depression during the 1930–1939 decade, first indications of effective cooperation appeared. Such cooperation, however, consisted largely of unilateral or bilateral activity, as manifested by trade agreements, Export-Import Bank loans, and cautious development of regional customs unions. Institutional cooperation on a multilateral basis remained embryonic, as trade with Germany, a non-hemispheric power, increased throughout Latin America. World War II, however, stepped up the pace of hemispheric cooperation, as non-hemispheric trade was either diminished or eliminated. Faced with the necessity of making drastic readjustments, the nations of Pan America turned in part to cooperation.

[58] *Ibid.*, p. 282.

Much of this was more or less temporary, being designed to sever ties with the Axis nations and to achieve other wartime objectives. Other cooperation, although aimed in part at short-run objectives, has assumed special significance because of additional long-range implications.

Hemispheric cooperation has varied noticeably as to scope, form, and maturity. Such action has often been initiated or encouraged by the United States, has then assumed bilateral form, and has ultimately attained a multilateral, insitutional stature. Such stages, however, cannot be observed in all instances. In some spheres, cooperation has not yet passed the unilateral or bilateral stages; in other instances, cooperation was initiated on a multilateral basis. Unilateral cooperation, incidentally, merely refers to active aid and encouragement by one country and passive acceptance by others. In many spheres, cooperation on all these levels has persisted simultaneously.

The Inter-American Coffee Agreement, impelled by the desperate plight of hemispheric producers, moved directly to the multilateral, institutional stage. The Pan American Highway was long merely a conglomeration of local highways, constructed largely through local initiative. After 1930, however, United States aid, especially in Central America, encouraged accentuation of the project. In the early 1940's, joint financing by the United States and the various governments hastened building of the road. A hemispheric plan for extension and improvement of the highway, perhaps involving financing by the Inter-American Bank, remains a possibility.

In agriculture's realm, some progress is apparent. At first, hemispheric cooperation in this realm was given tremendous impetus by United States technical assistance. Since the outbreak of World War II, however, joint research, experimentation, and plantation projects have grown rapidly. The Inter-American Institute of Agricultural Sciences represents the institutional culmination of such cooperation. In non-agricultural development projects, United States technical assistance and financing also often paved the way. Joint development projects, such as that launched in Brazil, marked the further growth of cooperative action. The Inter-American Development Commission, an institution with branches in all countries, has encouraged further activity.

Institutional cooperation has also been manifested by the continuing activity of the Pan American Union and its agencies; the establishment of the Inter-American Statistical Institute; and frequent meetings of

conferences and commissions. More ambitious projects for hemispheric cooperation, such as a North American customs union, hemispheric free trade, and sweeping commodity agreements, have been proposed. Whether such far-reaching proposals become actualities depends in large part upon whether Pan American cooperation proves to be but a creature of depression and war. Cooperation based merely upon autarchy or sheer expediency might not survive in a peacetime, world economy. Projects designed to enlarge the area of mutual action and compatible with the larger world economic organization, however, might prosper.

Chapter 16

FUTURE WORLD ROLE OF PAN AMERICA

THE ECONOMIC role of Pan America in the future, just as in the past, will be greatly influenced by the course of world events. The transition from a war economy to more peaceful economic pursuits throughout the world will be difficult and uncertain at best. The hatreds of years of warfare are not easily forgotten, and the deep underlying desire on the part of nations to guard against economic upheaval in the future will undoubtedly modify the form and nature of international trade upon which Latin American nations have so largely depended.

Consideration of future international economic organization has resolved itself into at least two main bodies of opinion in respect to the future of Latin American nations. Many students of Pan American relations see the development of a closely knit hemispheric bloc in which the Latin American countries, the United States, and Canada join in making the Western Hemisphere a regional economic unit with a high degree of self-sufficiency. Others consider that the future economic development of Latin America may be worked out to greater advantage in an integrated world economy in which the resources of the entire world are developed and utilized to a degree not yet witnessed in world history.

Facts and figures may be marshaled to support the position of both these bodies of opinion. Drastic shifts in world production and markets of the past two decades have focused attention on extreme dependence upon uncertain sources of supply. Depression and war accentuate programs of self-sufficiency and economic nationalism. On the other hand, the fact that in many portions of the world people starve, even under conditions of peace, while, in other nations, products are destroyed for want of markets indicates the need for better organization of the world's resources. Since resources are not distributed evenly throughout the

world, a multilateral system of international trade would appear to be indispensable to their efficient utilization.

The drawing of blueprints and the development of specific formulae by which the economic course of the nations of the world may be governed are baffling tasks. Nevertheless, consideration of future economic organization is essential, if peoples of the world desire to live under conditions of peace and greater security. Underlying any rational approach to the modification of international economic organization must be first of all an appreciation of the nature of the task to be accomplished. Regardless of whether Pan America dominates a hemispheric bloc or participates in a broader world economy, basic economic realities described in the preceding chapters must be faced.

The Latin American nations are not a homogeneous group economically. The one common characteristic observable in all is the use of economic resources in the production of raw materials. Production for direct consumption has been minimized in the interest of production for export. Underlying this type of production has been the belief that the gains from export would indirectly result in increased consumption at home. Scales of living throughout the area, however, do not prove the wisdom of this arrangement to the satisfaction of Latin Americans. Rearrangement of production for more satisfactory consumption means shifts in the use of resources in both agricultural and mineral-producing countries.

In the development of production for export, the Latin American nations have become oriented to important markets outside the Western Hemisphere. This orientation has proved to be a two-edged sword. European markets have been important in providing outlets for surplus products and serving as sources of supply for needed imports. On the other hand, for some of the Latin American nations, these ties have been so close that economic dislocations abroad have inevitably meant depression at home. A change in such market relationships means finding purchasers in other countries for the commodities normally sent to Europe, or allocation of productive factors at home into different channels.

The allocation of factors of production into other types of economic activity is already under way in Latin America, as indicated by industrial development. The desire for industrialization is natural and a characteristic which has been associated with expanding world trade

since the Industrial Revolution. The collapse of international markets in 1931 has quickened interest in industrialization, but the paths of international commerce carry ideas, as well as goods, and sooner or later some Latin American nations would have considered the allocation of resources in this direction. Certain types of resources are available for industrial development in the Latin American area, but the reality of existing impediments cannot be minimized. Labor supply, capital, transportation, and location of mineral deposits are factors which cannot be changed over night, whether the desire for industrialization is motivated by an urge toward self-sufficiency or toward more balanced production in an integrated world economy. Industrial development in Latin America would, in the long run, modify the nature and composition of its trade with industrial nations, but ample evidence is available of the possibility of profitable trade among industrial nations.

The extreme specialization characteristic of production in Latin America has been dictated, in large part, by foreign investors motivated by the desire for profit. Traditionally in need of capital, Latin American nations have been forced to borrow, and export to repay. Exporting to repay meant producing the type of goods creditor countries were willing to receive. This is not necessarily true in multilateral trade, but in Latin America the foreign capital which came to the area was directed, for the most part, into the development of raw materials and allied enterprises to further exports to the countries from which capital came. If such diversification as is compatible with economic specialization is to modify the former pattern of Latin American economic life, still more capital is needed. The need for capital, however, is not merely a quantitative problem. The mere pouring of additional capital into these countries upon the same basis as the past is not the solution to their economic ills. "Colonizing loans" have not brought balanced economies nor high standards of living. Possible outlets for capital investment exist, but the nature of many projects awaiting development in Latin America is such that private investment may have to give way to public investment. Latin America is not a new portion of the world awaiting the touch of capital from abroad. It is an old area in which foreign capital has already made considerable drain upon resources. Future capital must move in huge quantities but into different resources. If capital-exporting nations continue to regard the area as their own private "preserve" for further exploitation based solely

on short-run pecuniary returns, a more balanced economic life will still elude Latin Americans.

Another important element in the future economic position of Latin America is the direction in which international commercial policy of the nations of the world moves. The vast net of restrictive devices, including tariffs, quotas, clearing agreements, exchange control, and barter arrangements, have all played a role in Latin American economic life. If resources are to be developed and used efficiently, some assurance must be given of continued access to markets. This raises the whole problem of Latin America's ability to dispose of surpluses. If those surpluses are allowed to move freely to markets in all parts of the world, nations with competitive products must be willing to adjust commercial policy to permit such competition. If Latin America is to be developed independently of the rest of the world, surpluses must be disposed of within the hemisphere. This would call for tremendous readjustments, particularly of agricultural production. The suggested remedy of cooperation in marketing schemes as a method of disposal of surpluses, although of temporary aid, is not a solution of the fundamental problem. Probably the outstanding example of such cooperation is the Inter-American Coffee Agreement but even this does not prevent the burning of excess coffee in Brazil. Arrangements to dispose of surpluses as they are produced is merely treatment of a disease. In no sense are they preventive.

Diversification in Latin American production, if encouraged upon a hemisphere basis, also has bearing upon the problem of commercial policy. If rubber development in Latin America, for example, is desired by the United States, it may mean a development subsidized by this country and a curtailment of purchases from other sources. Systems of preferences for Pan American trade would conceivably be used to offset competitive advantages possessed by countries beyond the hemisphere. This would mean discrimination against some nations in favor of others and a departure from the United States policy of equality of treatment. In addition, nations deprived of a portion of their sales in United States markets would have less purchasing power to be utilized for the purchase of American products.

The foregoing discussion suggests that a change in the basic pattern of Latin American economic life is not easy. A world-trading organization, in which Latin America can take its place, requires a high de-

gree of cooperation and aid from economically stronger nations. If a hemispheric trading unit is the outcome of post-war readjustments, a high degree of Pan American cooperation is necessary. The need for cooperation appears to be too far reaching in scope to be realized by the traditional methods formerly prevailing in international trade. The emergencies of World War II developed a high degree of cooperation among the Pan American nations, and the hope is expressed in many quarters that the machinery thus established become a pattern for post-war adjustment. Cooperation in the heat of war, however, must overlook factors which, on purely economic grounds, would limit action. Cooperative action in the post-war era will undoubtedly place more emphasis upon the basic economic problems suggested above.

No form of political or economic organization possesses magical power by which natural and human resources can be changed overnight. The experience of nations in the mad scramble for self-sufficiency and economic nationalism since the close of World War I has failed to bring either peace or economic security. Return to the nineteenth century pattern of international trade seems impossible and, certainly in Latin America's case, undesirable. The pattern of the future probably must deviate from both these extremes. The adjustment of Latin America to the changed pattern will be difficult and depends in no small measure upon the action of the United States. Commercial warfare on a regional basis is fraught with difficulty and uncertainty and, carried to its logical conclusion, is limited by the resources and trade of the region. Liberal trading principles, as the basis for an integrated world economy, are equally difficult although not limited by the resources of a single region.

Latin America's resources aided in the past development of the economic life of the world, often at the expense of well-being at home. Continuance of an important international role, plus increased economic welfare domestically, can be achieved only on the basis of intelligent analysis of the basic economic relationships of Latin America.

APPENDIX

TABLE 1[1]

SHARE OF INDIVIDUAL NATIONS IN LATIN AMERICAN EXPORT AND IMPORT TRADE, 1938

Latin American Nations	Exports (millions, U. S. dollars)	Percentage of Total L. A. Exports	Imports (millions U. S. dollars)	Percentage of Total L. A. Imports	Balance of Trade
Caribbean Countries:					
Mexico	186.1	10.1	110.0	7.4	+ 76.1
Cuba	144.5	7.9	105.9	7.1	+ 38.6
Dominican Republic	15.4	0.8	10.2	0.7	+ 5.2
Haiti	6.9	0.4	7.6	0.5	− 0.7
Costa Rica	11.8	0.6	12.2	0.8	− 0.4
El Salvador	13.5	0.7	9.1	0.6	+ 4.4
Guatemala	16.4	0.9	21.0	1.4	− 4.6
Honduras	8.5	0.5	9.1	0.6	− 0.6
Nicaragua	4.6	0.3	3.6	0.3	+ 1.0
Panama	3.9	0.2	17.6	1.2	− 13.7
Colombia	91.4	5.0	88.0	5.9	+ 3.4
Venezuela	267.3	14.6	104.9	7.1	+162.4
Total for region	770.3	42.0	499.2	33.6	+271.1
Brazil	296.1	16.2	292.7	19.7	+ 3.4
West Coast, South American Countries:					
Bolivia	35.2	1.9	24.4	1.6	+ 10.8
Chile	138.7	7.6	103.2	6.9	+ 35.5
Ecuador	11.7	0.6	10.3	0.7	+ 1.4
Peru	77.2	4.2	59.4	4.0	+ 17.8
Total for region	262.8	14.3	197.3	13.2	+ 65.5
East Coast, Temperate Zone, South American Countries:					
Argentina	437.6	23.9	442.6	29.7	− 5.0
Paraguay	8.0	0.4	8.1	0.5	− 0.1
Uruguay	58.9	3.2	48.6	3.3	+ 10.3
Total for region	504.5	27.5	499.3	33.5	+ 5.2
Totals for Latin America	1,833.7	100.0	1,488.5	100.0	+345.2

[1] Jaime Zuloaga, "The International Economic Relations of Latin America," *Commercial Pan America*, 10:4, January, 1941.

TABLE 2[1]

ARGENTINE BALANCE OF PAYMENTS, 1933–1937

(In Millions of Pesos)

Items	1933	1934	1935	1936	1937
Current:					
Credits:					
Merchandise exports	1,141	1,618	1,726	1,851	2,484
New foreign investments	15	150	150	310	90
Sundry	34	43	48	49	45
Debits:					
Merchandise imports	911	1,110	1,175	1,183	1,557
Public debt service	176	212	194	184	161
Public expenditures abroad	16	21	36	52	91
Interest on private capital	250	270	278	285	300
Private remittances	69	75	77	79	103
Balance: (+ = credit)	−232	+123	+164	+427	+407
Extraordinary:					
Credits:					
Net gold exports		61	12		
Unblocking loans	298	62	7		
Debits:					
Cancellation of public debt		46	19	7	445
Cancellation of commercial debt arrears	28	54	52	27	44
Net gold imports				2	
Balance: (+ = credit)	+270	+23	−52	−36	−489
NET BALANCE	+38	+146	+112	+391	−82

[1] Virgil Salera, *Exchange Control and the Argentine Market*, p. 182. The Columbia Studies in History, Economics, and Public Law, Columbia University Press.

TABLE 3[3]

Relative Position of Principal Commodities in the Export Trade of Latin American Countries, 1938
(By Value)

Latin American Nations	Leading Commodity	Per Cent	2nd Commodity	Per Cent	3d Commodity	Per Cent	All Others Per Cent
Caribbean Countries:							
Mexico	Silver	21.9	Lead	9.9	Petroleum	5.6	62.6
Cuba	Sugar	72.7	Tobacco	5.9			21.4
Dominican Republic	Sugar	59.8	Cacao	13.3	Coffee	7.2	19.7
Haiti	Coffee	62.1	Cotton	15.3	Sugar	8.1	14.5
Costa Rica	Coffee	57.5	Bananas	23.5	Cacao	10.4	8.6
El Salvador	Coffee	89.2	Gold and silver	5.7			5.1
Guatemala	Coffee	70.2	Bananas	25.0			4.8
Honduras	Bananas	82.3	Gold and silver	9.0			8.7
Nicaragua	Coffee	45.5	Bananas	38.0	Gold	8.5	8.0
Panama	Bananas	73.6					26.4
Colombia	Coffee	58.4	Petroleum	17.9	Gold	13.2	10.5
Venezuela	Petroleum	89.0	Coffee	5.2			5.8
Brasil	Coffee	45.5	Cotton	19.1	Cacao	5.3	30.1
West Coast, South American Countries:							
Bolivia	Tin	71.4	Silver	12.3			16.3
Chile	Copper	38.0	Nitrate	28.2			33.8
Ecuador	Cacao	21.1	Minerals	19.2	Petroleum	13.1	46.6
Peru	Cotton	27.3	Petroleum	23.2	Copper	12.8	36.7
East Coast, Temperate Zone, South American Countries:							
Argentina	Corn	26.9	Linseed	12.8	Wheat	10.3	50.0
Paraguay	Cotton	28.4	Quebracho extract	21.7	Hides	12.3	37.6
Uruguay	Wool	40.4	Meats	9.4	Hides	7.6	42.6

[3] Jaime Zuloaga, *op. cit.*, p. 6.

TABLE 4[4]

PRINCIPAL COMMODITIES EXPORTED FROM LATIN AMERICA IN 1938

(By Value)

Commodity	*Value in U. S. Dollars*	*Per Cent*
Petroleum	317,361,000	17
Coffee	233,501,000	12
Meats	124,137,000	6
Sugar	115,704,000	6
Copper	106,659,000	5
Wool	92,187,000	5
Cotton	76,535,000	4
Metals, other than copper and tin	73,066,000	4
Hides and skins	62,539,000	3
Wheat	61,438,000	3
Linseed	59,572,000	3
Corn	59,299,000	3
Nuts, waxes, and oils	37,739,000	2
Nitrates	31,478,000	1
Cereals, other than wheat, corn and linseed	30,935,000	1
Bananas	28,139,000	1
Tin	24,793,000	1
Cabinet woods, lumber and quebracho	21,705,000	1
Cacao	21,672,000	1
Henequen and other fibers	9,069,000	0
Gold, silver, and other products	246,203,000	13
Total exports	1,833,731,000	

[4] *Ibid.*, p. 5.

TABLE 5[5]

SHARE OF INDIVIDUAL COUNTRIES IN LEADING LATIN AMERICAN EXPORTS, 1938

(In Percentages of United States Dollar Value)

Petroleum	*Per Cent*	*Coffee*	*Per Cent*	*Meats*	*Per Cent*
Venezuela	73.7	Brazil	57	Argentina	80
Colombia	9.4	Colombia	21	Uruguay	10
Peru	8.9	Venezuela	5	Brazil	9
Mexico	6.3	Guatemala	4	Chile	1
		El Salvador	4		

Sugar	*Per Cent*	*Copper*	*Per Cent*	*Wool*	*Per Cent*
Cuba	86	Chile	76	Argentina	52
Dominican Republic	7	Peru	13	Uruguay	37
Peru	5	Mexico	8	Chile	6
Haiti	1	Cuba	3	Peru	3
				Brazil	2

[5] *Ibid.*, pp. 7–10.

TABLE 6[6]

UNITED STATES IMPORTS FROM LATIN AMERICA BY COMMODITY GROUPS, 1938

(Value in Thousands of United States Dollars)

Commodity Group	*Amount*	*Percentage of Total*
Vegetable food products and beverages (chiefly coffee, sugar, bananas, cacao, molasses)	276,000	61.69
Vegetable products, inedible, except fibers and wood (chiefly flaxseed, tobacco, carnauba wax, castor beans, quebracho extract)	45,369	10.14
Metals and manufactures, except machinery and vehicles (chiefly unrefined copper and manganese ore)	37,895	8.47
Non-metallic minerals (chiefly petroleum)	20,397	4.56
Textile fibers and manufactures (chiefly wool, sisal, and henequen)	17,415	3.89
Animals and animal products, edible (chiefly canned beef and cattle)	14,754	3.30
Chemicals and related products (chiefly sodium nitrate)	14,596	3.26
Animals and animal products, inedible (chiefly hides and skins)	14,175	3.17
Wood and paper (chiefly cabinet woods)	1,588	.36
Machinery and vehicles	108	.02
Miscellaneous	5,101	1.14
Total	447,398	100.00

[6] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 79.

TABLE 7[7]

UNITED STATES EXPORTS TO LATIN AMERICA BY COMMODITY GROUPS, 1938

(Value in Thousands of United States Dollars)

Commodity Group	*Amount*	*Percentage of Total*
Machinery and vehicles	201,152	41.08
Metals and manufactures, except machinery and vehicles	64,495	13.17
Non-metallic minerals	46,246	9.44
Vegetable food products and beverages	34,726	7.09
Textile fibers and manufactures	33,822	6.91
Chemicals and related products	28,772	5.88
Wood and paper	20,503	4.19
Vegetable products, inedible, except fibers and wood	16,473	3.36
Animals and animal products, edible	14,698	3.00
Animals and animal products, inedible	5,972	1.22
Miscellaneous	22,806	4.66
Total	489,665	100.00

[7] *Ibid.*, p. 85.

TABLE 8 [8]

SHARE OF EACH CONTINENT IN THE EXPORTS AND IMPORTS OF THE UNITED STATES, BY ECONOMIC CLASSES

(In Percentages of Value)

	1926–30, av.	1931–35, av.	1936	1937	1938	1939	1926–30, av.	1931–35, av.	1936	1937	1938	1939
	Crude Materials						Foodstuffs and Beverages					
U. S. Exports:												
North America	15.4	15.8	18.4	20.2	19.8	24.6	28.5	21.9	28.7	30.0	27.8	26.9
South America	0.6	0.6	0.7	1.0	1.2	2.0	4.9	4.3	3.7	4.6	3.0	5.2
Europe	67.6	58.6	60.2	61.2	58.4	52.3	58.4	63.8	57.3	55.7	63.3	57.9
Asia	15.9	24.6	20.2	17.2	20.1	20.6	7.2	8.7	8.0	7.5	5.0	8.9
Africa	0.5	0.4	0.4	0.4	0.6	0.5	1.0	1.3	2.3	2.2	1.0	1.2
U. S. Imports:												
North America	12.1	10.7	10.0	8.6	11.6	10.7	38.4	32.0	41.7	35.1	33.1	35.1
South America	11.5	13.3	13.9	14.4	13.8	14.9	31.5	29.6	21.3	25.4	25.6	23.9
Europe	17.3	19.2	19.5	15.3	15.7	12.5	14.2	15.8	18.3	17.7	20.1	18.6
Asia	55.9	53.7	53.1	57.5	53.1	55.8	13.8	20.6	16.2	17.2	18.9	19.1
Africa	3.2	3.0	3.6	4.2	5.8	6.2	2.0	2.1	2.5	4.6	2.3	3.2
	Semi-Manufactures						Finished Manufactures					
U. S. Exports:												
North America	24.4	23.0	21.5	18.7	19.5	19.4	29.3	27.0	28.8	28.4	25.2	26.6
South America	9.9	7.6	7.1	6.6	6.9	8.7	15.8	12.3	14.1	15.5	16.0	14.8
Europe	48.1	46.6	44.7	42.5	45.2	43.0	31.7	35.0	28.9	27.9	30.3	32.6
Asia	16.4	20.9	24.1	29.7	25.9	26.5	19.1	19.7	20.0	20.4	22.1	20.4
Africa	1.2	1.8	2.6	2.5	2.6	2.4	4.2	6.0	8.3	7.8	6.4	5.6
U. S. Imports:												
North America	24.2	24.4	23.3	22.4	25.3	27.2	25.9	31.0	27.0	28.0	30.0	32.7
South America	11.1	8.1	6.2	8.3	9.1	8.6	0.6	0.8	0.4	0.4	0.6	0.7
Europe	42.7	44.0	41.5	39.0	40.7	39.9	56.7	50.3	51.2	49.7	49.4	48.0
Asia	18.9	21.7	28.0	29.0	23.6	22.4	16.7	17.6	21.1	21.6	19.7	18.7
Africa	3.2	1.8	1.0	1.3	1.3	1.8	0.2	0.2	0.3	0.2	0.3	0.3

[8] U. S. Department of Commerce, *Statistical Abstract of the United States, 1940*, p. 503.

TABLE 9[9]

Share of Each Economic Class in the Exports and Imports of the United States, by Continents

(In Percentages of Value)

	1926–30, av.	1931–35, av.	1936	1937	1938	1939	1926–30, av.	1931–35, av.	1936	1937	1938	1939
	North America						South America					
U. S. Exports:												
Crude materials	15.0	21.4	20.6	17.9	16.3	16.7	1.6	2.4	2.4	2.3	2.4	3.2
Foodstuffs	18.3	12.4	9.7	10.4	16.7	10.8	8.3	7.7	3.7	4.1	4.3	5.0
Semi-manufactures	3.8	14.9	14.2	15.5	13.7	15.4	14.8	15.7	13.8	14.3	11.7	16.4
Finished goods	53.0	51.3	55.5	56.2	53.2	57.1	75.3	74.2	80.1	79.3	81.6	75.0
U. S. Imports:												
Crude materials	19.2	12.8	11.8	12.3	14.0	14.0	31.3	26.9	35.0	34.0	30.3	36.9
Foodstuffs	36.9	38.8	49.4	44.1	39.5	37.5	52.3	61.1	54.0	52.6	55.5	48.1
Semi-manufactures	19.6	18.8	18.5	20.9	20.3	23.4	15.5	10.6	10.4	12.8	13.4	14.0
Finished goods	24.3	29.6	20.3	22.7	26.2	25.1	.9	1.4	.7	.6	.9	1.0
	Europe						Other Continents					
U. S. Exports:												
Crude materials	35.0	37.3	39.1	33.0	26.4	21.8	24.2	37.3	28.3	18.3	19.6	17.0
Foodstuffs	20.0	17.1	11.3	11.7	20.9	14.3	7.2	5.6	3.4	3.1	3.5	4.4
Semi-manufactures	14.4	14.2	17.2	21.5	17.5	20.9	14.5	15.2	20.0	29.7	21.5	25.5
Finished goods	30.5	31.4	32.4	33.7	35.2	42.9	54.0	42.0	48.4	48.8	55.3	53.1
U. S. Imports:												
Crude materials	21.2	18.5	19.8	18.0	15.9	15.2	66.6	52.2	52.3	55.4	52.2	57.5
Foodstuffs	10.6	15.5	18.7	18.4	20.2	18.4	10.1	20.4	16.0	14.6	18.4	16.0
Semi-manufactures	26.9	27.4	28.3	30.1	27.6	31.8	11.5	13.7	18.5	18.2	15.4	15.1
Finished goods	41.3	38.6	33.2	33.4	36.3	34.6	11.8	13.7	13.2	11.8	14.0	11.4

[9] *Ibid.*

TABLE 10 [10]

DISTRIBUTION OF THE EXPORTS OF TWENTY LATIN AMERICAN NATIONS, BY COUNTRIES OF DESTINATION, 1913

(In Percentages of Value)

Latin American Nations	United States	United Kingdom	Germany	France
Caribbean Countries:				
Mexico	77.2	10.4	5.5	2.4
Cuba	79.9	11.2	2.9	1.0
Dominican Republic	53.5	2.3	19.7	8.5
Haiti	8.8	7.1	37.1	44.2
Costa Rica	50.8	41.8	4.9	0.9
El Salvador	28.4	7.1	16.8	20.4
Guatemala	27.2	11.1	52.9	0.2
Honduras	86.9	0.4	5.3	0.1
Nicaragua	35.3	12.9	24.5	22.9
Panama	89.2	1.2	4.0	0.3
Colombia	54.9	16.2	9.4	2.3
Venezuela	28.7	7.5	18.9	33.9
Average for region	67.3	11.2	8.9	5.7
Brazil	32.5	13.2	14.1	12.3
West Coast, South American Countries:				
Bolivia	0.6	80.8	8.5	4.9
Chile	21.1	38.4	21.3	6.1
Ecuador	24.3	10.3	16.6	34.1
Peru	33.2	37.2	6.7	3.5
Average for region	20.4	42.8	16.4	7.3
East Coast, Temperate Zone, South American Countries:				
Argentina	4.7	24.9	11.9	7.8
Paraguay		(1)	21.9	0.6
Uruguay	4.6	12.2	21.3	18.9
Average for region	4.7	23.1	13.2	9.1
Average for Latin America	31.3	20.7	12.6	8.5

(1) Less than 1/10th of 1 per cent.

[10] Pan American Union, *A Statistical Account of the Foreign Trade of Latin America before and during the World War*, pp. 4, 11–14.

TABLE 11 [11]

DISTRIBUTION OF THE IMPORTS OF TWENTY LATIN AMERICAN NATIONS, BY COUNTRIES OF ORIGIN, 1913

(In Percentages of Value)

Latin American Nations	United States	United Kingdom	Germany	France
Caribbean Countries:				
Mexico	49.7	13.2	12.9	9.4
Cuba	52.8	11.2	6.6	6.4
Dominican Republic	62.2	7.9	18.1	2.9
Haiti	72.9	7.3	20.7	10.1
Costa Rica	51.5	14.9	17.6	4.5
El Salvador	40.3	25.9	11.6	6.8
Guatemala	50.2	16.4	20.3	3.9
Honduras	67.3	14.7	10.9	2.9
Nicaragua	56.2	19.9	10.8	6.9
Panama	55.9	21.6	9.5	2.9
Colombia	23.2	20.5	14.1	15.4
Venezuela	38.5	23.8	14.4	6.1
Average for region	49.9	14.0	10.6	7.7
Brazil	15.7	23.9	17.5	9.8
West Coast, South American Countries:				
Bolivia	7.8	20.3	36.7	3.7
Chile	16.7	30.0	24.6	5.5
Ecuador	31.8	29.6	17.7	4.9
Peru	28.8	26.3	17.3	4.6
Average for region	18.3	28.2	24.5	5.1
East Coast, Temperate Zone, South American Countries:				
Argentina	14.7	31.0	16.9	9.0
Paraguay	6.0	28.6	27.6	6.6
Uruguay	13.1	24.9	15.9	8.4
Average for region	14.5	30.4	17.0	8.9
Average for Latin America	24.7	24.3	16.4	8.3

[11] *Ibid.*, pp. 3, 7–10.

TABLE 12 [12]

DISTRIBUTION OF THE EXPORTS OF TWENTY LATIN AMERICAN NATIONS, BY COUNTRIES OF DESTINATION, 1938

(In Percentages of Value)

Latin American Nations	United States	United Kingdom	Germany	France	Japan
Caribbean Countries:					
Mexico	67.4	9.4	7.7	2.3	0.4
Cuba	76.0	13.7	1.9	1.5	0.1
Dominican Republic	32.1	41.7	3.4	8.0	0.2
Haiti	42.8	13.6	2.1	11.5	2.2
Costa Rica	45.6	24.4	19.2	1.1	1.2
El Salvador	61.7	1.4	9.9	0.7	...
Guatemala	70.7	0.4	11.5	0.4	0.1
Honduras	90.7	1.8	1.9	(1)	0.3
Nicaragua	77.5	1.2	10.9	2.0	0.5
Panama	89.2	0.6	3.9	...	...
Colombia	52.7	0.5	14.6	4.7	0.1
Venezuela	13.2	3.2	3.2	1.3	0.1
Average for region	47.5	7.0	5.7	2.1	0.2
Brazil	34.3	8.8	19.1	6.4	4.6
West Coast, South American Countries:					
Bolivia	4.6	62.6	1.1	(1)	0.3
Chile	15.7	21.8	10.0	4.5	1.6
Ecuador	37.5	4.7	17.5	8.0	2.5
Peru	26.8	20.0	10.6	7.8	0.6
Average for region	18.9	25.8	9.4	4.6	1.2
East Coast, Temperate Zone, South American Countries:					
Argentina	8.5	32.8	11.7	5.4	1.1
Paraguay	12.3	13.0	14.2	2.0	...
Uruguay	4.0	26.1	23.5	7.4	1.7
Average for region	8.0	31.9	13.1	5.5	1.2
Average for Latin America	30.7	16.8	14.9	4.1	1.3

(1) Less than 1/10th of 1 per cent.

[12] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part II, Sections 1–20.

TABLE 13 [12]

DISTRIBUTION OF THE IMPORTS OF TWENTY LATIN AMERICAN NATIONS, BY COUNTRIES OF ORIGIN, 1938

(In Percentages of Value)

Latin American Nations	United States	United Kingdom	Germany	France	Japan
Caribbean Countries:					
Mexico	57.7	4.1	18.9	4.0	1.8
Cuba	70.9	4.3	4.4	2.6	0.5
Dominican Republic	53.5	5.0	7.6	3.2	10.6
Haiti	54.3	15.5	6.4	3.3	5.3
Costa Rica	49.1	6.6	19.8	1.3	6.2
El Salvador	46.7	9.1	21.1	3.2	...
Guatemala	54.5	3.7	27.0	1.4	0.2
Honduras	65.3	3.2	11.4	1.0	9.2
Nicaragua	68.4	5.2	12.2	2.6	0.9
Panama	57.4	4.8	6.2	2.3	9.3
Colombia	51.2	12.3	17.3	3.4	0.2
Venezuela	56.4	7.0	12.0	2.9	1.7
Average for region	58.7	5.9	12.9	3.1	1.9
Brazil	24.2	10.4	25.0	3.2	1.3
West Coast, South American Countries:					
Bolivia	25.5	7.0	17.9	1.4	7.0
Chile	27.8	10.2	25.8	2.0	2.5
Ecuador	34.6	7.7	24.1	4.4	7.4
Peru	34.3	10.1	20.3	2.7	3.3
Average for region	29.8	9.6	23.1	2.2	3.6
East Coast, Temperate Zone, South American Countries:					
Argentina	17.4	20.1	10.3	4.7	3.7
Paraguay	9.8	9.6	11.4	1.5	14.9
Uruguay	11.8	20.3	16.4	2.2	4.8
Average for region	16.8	19.7	10.9	4.2	4.0
Average for Latin America	34.1	11.9	16.0	3.4	2.7

[12] *Ibid.*

TABLE 14 [14]

Distribution of Latin American Exports among Six Leading Trading Nations, Selected Years

(In Percentages of Value)

Year	United States	United Kingdom	France	Germany	Italy	Japan
1910	34.5	20.9	8.4	11.1	1.2	0.1
1911	34.3	21.0	9.2	12.9	1.7	0.1
1912	34.4	19.8	7.9	11.9	1.8	0.1
1913	30.8	21.2	8.0	12.4	2.0	0.1
1932	32.1	19.4	6.7	7.2	3.1	0.1
1933	29.4	22.1	6.2	6.9	...	0.3
1934	29.4	20.2	5.0	7.9	...	0.4
1935	32.8	18.6	4.7	8.0	2.2	0.8
1936	32.8	19.2	5.0	8.0	1.8	1.9
1937	31.0	17.7	4.0	8.7	3.1	1.6
1938	31.3	16.1	4.0	10.3	1.5	1.3
1939	35.2	15.6	3.8	6.3	1.7	1.5
1940	44.1	16.1	2.1	0.1	1.5	2.4

[14] Julian Zier, "Latin American Foreign Trade in 1940," *Bulletin of Pan American Union*, 76:160, March, 1942.

TABLE 15 [15]

Distribution of Latin American Imports among Six Leading Trading Nations, Selected Years

(In Percentages of Value)

Year	United States	United Kingdom	France	Germany	Italy	Japan
1910	23.5	26.0	8.4	15.6	4.9	0.1
1911	23.8	25.7	8.3	16.7	4.6	0.1
1912	24.5	24.8	8.3	16.7	5.1	0.1
1913	25.0	24.4	8.3	16.6	5.0	0.1
1932	32.3	16.3	4.9	9.4	5.4	0.1
1933	29.2	18.1	4.9	11.5	...	1.8
1934	30.1	17.3	4.6	9.9	...	2.8
1935	31.7	14.7	3.7	13.0	2.6	3.7
1936	31.5	14.3	3.3	15.4	2.1	3.0
1937	34.0	13.2	3.0	15.4	2.4	2.8
1938	34.6	11.8	3.4	16.5	3.0	2.7
1939	40.6	10.1	3.4	13.3	2.3	1.8
1940	52.7	10.3	1.6	1.2	1.7	2.9

[15] *Ibid.*

TABLE 16[16]

IMPORTANCE OF INTRA-LATIN AMERICAN TRADE IN THE TOTAL EXPORTS AND IMPORTS OF INDIVIDUAL REPUBLICS

(In Percentages of Value)

Latin American Nations	Exports to Latin America			Imports from Latin America		
	Av. 1928–30	1938	1939	Av. 1928–30	1938	1939
Caribbean Countries:						
Mexico	3.0	0.8	1.1	0.8	0.7	0.9
Cuba	2.3	1.6	1.6	5.2	2.2	1.7
Dominican Republic	2.9	0.4	0.8	0.6	1.0	1.0
Haiti	1.0	0.1		0.6	1.2	0.9
Costa Rica	3.1	2.6	4.5	8.2	4.6	4.4
El Salvador	4.2	7.1	12.4	5.6	6.2	6.7
Guatemala	1.1	0.8	1.2	3.5	3.1	3.3
Honduras	2.7	3.9	3.1	3.9	5.1	10.0
Nicaragua	7.8	5.4	3.8	6.0	6.6	6.2
Panama	1.3	0.5	1.1	3.7	3.8	2.4
Colombia	3.9	0.8	1.1	4.5	1.8	2.8
Venezuela	0.7	0.5	0.5	0.3	0.8	1.4
Brazil	23.8	6.3	7.3	15.5	13.9	11.2
West Coast, South American Countries:						
Bolivia	3.7	4.0	3.2	22.6	30.9	39.5
Chile	3.9	4.6	4.1	12.4	13.8	15.4
Ecuador	19.7	22.9	19.3	3.1	6.6	6.9
Peru	24.7	20.1	23.5	5.5	10.7	9.5
East Coast, Temperate Zone, South American Countries:						
Argentina	6.7	11.1	8.4	10.4	10.3	12.0
Paraguay	92.5	48.5	61.6	36.7	42.2	47.2
Uruguay	18.5	14.1	9.6	21.2	19.2	25.1

[16] Julian Zier, "Commercial Interdependence of the Americas," *Commercial Pan America*, 10:342–343, August, 1941.

TABLE 17[17]

POSITION OF LATIN AMERICA IN THE FOREIGN TRADE OF THE UNITED STATES, 1929–1939

(Values in Thousands of United States Dollars)

Year	Imports (General)			Exports (Including Re-exports)		
	From All Countries	From Latin America	Percentage from Latin America	To All Countries	To Latin America	Percentage to Latin America
1929	4,399,361	1,014,127	23.1	5,240,995	911,749	17.4
1930	3,060,908	677,722	22.1	3,843,181	628,174	16.4
1931	2,090,635	478,164	22.9	2,424,289	312,616	12.9
1932	1,322,774	323,190	24.4	1,611,016	195,113	12.1
1933	1,449,559	316,039	21.8	1,674,994	215,680	12.9
1934	1,655,055	370,935	22.4	2,132,800	307,274	14.4
1935	2,047,485	460,997	22.5	2,282,874	344,360	15.1
1936	2,422,592	501,610	20.7	2,455,978	395,045	16.1
1937	3,083,668	672,611	21.8	3,349,167	578,203	17.3
1938	1,960,428	453,517	23.1	3,094,440	494,821	16.0
1939	(1) 2,318,258	518,162	22.4	3,177,344	569,098	17.9

(1) Preliminary.

[17] U. S. Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 64.

TABLE 18[18]

DISTRIBUTION OF UNITED STATES EXPORTS TO SELECTED LATIN AMERICAN NATIONS, 1926–1938

(In Percentages of Value)

(Including Re-exports)

Countries	1926–1930, av.	1931–1935, av.	1934	1935	1936	1937	1938
Mexico	2.6	2.4	2.6	2.9	3.1	3.3	2.0
Central America	1.6	1.8	1.8	1.7	1.7	1.5	1.6
Panama	0.7	0.9	0.9	0.9	0.9	0.7	0.8
West Indies and Bermuda	4.2	3.8	4.0	4.3	4.4	4.8	4.9
Cuba	2.8	2.0	2.1	2.6	2.7	2.8	2.5
Neth. West Indies	0.3	0.5	0.6	0.6	0.6	1.0	1.4
Argentina	3.5	2.1	2.0	2.2	2.3	2.8	2.8
Brazil	1.9	1.7	1.9	1.9	2.0	2.0	2.0
Chile	1.0	0.6	0.6	0.7	0.6	0.7	0.8
Colombia	1.0	0.8	1.0	0.9	1.1	1.2	1.3
Peru	0.5	0.4	0.5	0.5	0.5	0.6	0.5
Venezuela	0.8	0.8	0.9	0.8	1.0	1.4	1.7
	20.9	17.8	18.9	20.0	20.9	22.8	22.3

[18] U. S. Bureau of Foreign and Domestic Commerce, *Trade Promotion Series 198*, pp. 54–55.

TABLE 19 [19]

DISTRIBUTION OF UNITED STATES IMPORTS FROM SELECTED LATIN AMERICAN NATIONS, 1926–1938

(In Percentages of Value)

(General Consumption)

Countries	1926–1930, av.	1931–1935, av.	1934	1935	1936	1937	1938
Mexico	3.1	2.3	2.2	2.1	2.0	1.9	2.5
Central America	1.1	1.5	1.4	1.4	1.3	1.2	1.7
Panama	0.1	0.2	0.3	0.2	0.2	0.1	0.2
West Indies and Bermuda	7.2	6.5	6.1	6.3	6.5	6.0	7.1
Cuba	5.2	4.6	4.8	5.1	5.3	4.8	5.4
Neth. West Indies	1.2	1.2	0.5	0.6	0.6	0.6	1.0
Argentina	2.4	2.1	1.8	3.2	2.7	4.5	2.1
Brazil	4.9	5.4	5.5	4.9	4.2	3.9	5.0
Chile	1.9	1.3	1.4	1.2	1.1	1.5	1.4
Colombia	2.3	3.3	2.8	2.5	1.8	1.7	2.5
Peru	0.6	0.4	0.4	0.4	0.4	0.5	0.7
Venezuela	0.9	1.2	1.3	1.0	1.1	0.7	1.0
	30.9	30.0	28.5	28.9	27.2	27.4	30.6

[19] *Ibid.*

TABLE 20 [20]

DISTRIBUTION OF LATIN AMERICAN EXPORTS AMONG SIX LEADING TRADING NATIONS, 1939–1940

(Values in Thousands of United States Dollars)

Country	Abs. Value, 1939	Abs. Value, 1940	% of Total, 1939	% of Total, 1940
Total	1,858,489	1,763,997	100.0	100.0
United States	654,860	778,091	35.2	44.1
United Kingdom	289,316	284,419	15.6	16.1
France	70,613	37,812	3.8	2.1
Germany	117,788	1,717	6.3	0.1
Italy	31,790	27,005	1.7	1.5
Japan	28,777	43,132	1.5	2.4

[20] Julian Zier, "Latin American Foreign Trade in 1940," *Bulletin of Pan American Union*, 76:160, March, 1942.

TABLE 21 [21]

DISTRIBUTION OF LATIN AMERICAN IMPORTS AMONG SIX LEADING TRADING NATIONS, 1939–1940

(Values in Thousands of United States Dollars)

Country	Abs. Value, 1939	Abs. Value, 1940	% of Total, 1939	% of Total, 1940
Total	1,346,510	1,332,962	100.0	100.0
United States	546,869	703,372	40.6	52.7
United Kingdom	136,643	136,982	10.1	10.3
France	45,911	21,116	3.4	1.6
Germany	179,655	16,521	13.3	1.2
Italy	30,987	22,687	2.3	1.7
Japan	24,403	38,037	1.8	2.9

[21] *Ibid.*

TABLE 22 [22]

EXPORTS OF THE LATIN AMERICAN REPUBLICS (1) TO CONTINENTAL EUROPE (2), 1939 AND 1940

(In Thousands of United States Dollars)

Latin American Nations	1939		1940		Difference in 1940	
	Value	Per Cent of Exports to World	Value	Per Cent of Exports to World	Absolute Value	Percentage Decline
Caribbean Countries:						
Mexico	30,455	17.3	7,954	4.5	−22,501	−73.9
Cuba	12,507	9.1	6,777	5.9	− 5,730	−45.8
Dominican Republic	3,744	20.1	1,306	7.1	− 2,438	−65.1
Haiti	3,241	44.6	920	17.0	− 2,321	−71.6
Costa Rica	2,733	30.1	646	8.6	− 2,087	−76.4
El Salvador	3,446	27.0	1,638	13.5	− 1,808	−52.5
Guatemala	4,578	26.9	752	6.2	− 3,826	−83.6
Honduras	291	2.9	52	0.5	− 239	−82.1
Nicaragua	1,400	16.9	88	0.9	− 1,312	−93.7
Panama						
Colombia	15,596	15.4	5,442	5.7	−10,154	−65.1
Venezuela	15,075	5.0	7,614	2.8	− 7,461	−49.5
Brazil	111,680	36.3	42,857	16.3	−68,823	−61.6
West Coast, South American Countries:						
Bolivia	8,487	21.6	2,349	4.5	− 6,138	−72.3
Chile	37,292	27.0	7,500	5.2	−29,792	−79.9
Ecuador	2,588	22.8	542	5.0	− 2,046	−79.1
Peru	13,831	19.3	2,926	4.4	−10,905	−78.8
East Coast, Temperate Zone, South American Countries:						
Argentina	188,368	39.1	108,925	25.6	−79,443	−42.2
Paraguay	1,459	14.9	269	3.9	− 1,190	−81.6
Uruguay	21,554	42.6	17,019	29.2	− 4,535	−21.0
Totals and averages for Latin America	478,325	25.1	215,576	12.3	−262,749	−54.9

(1) Excluding Panama.
(2) Including Russia and Turkey in Asia.

[22] "Annual Economic Survey of Latin America, 1940," *Commercial Pan America*, 10:100 April–May–June, 1941.

TABLE 23 [22]

DISTRIBUTION OF ARGENTINE FOREIGN TRADE

(In Percentages of Value)

Country of Origin	Imports				
	1937	1938	1939	1940	1941 (1)
Great Britain	20.7	18.3	19.9	19.8	18.7
United States	16.0	17.7	17.2	29.1	27.8
Germany	10.7	10.1	9.1	0.7	0.4
Italy	4.5	5.5	2.7	2.3	
Belgium	7.2	5.2	6.5	2.8	0.1
Netherlands	3.0	1.9	2.4	1.3	
Brazil	5.1	4.7	6.5	7.8	12.8
France	4.2	4.3	5.6	3.0	0.2
Japan	3.6	3.3	0.8	2.1	3.6
Others	24.9	29.0	29.3	31.1	36.4
Country of Destination	**Exports**				
	1937	1938	1939	1940	1941 (1)
Great Britain	29.0	32.8	35.9	36.4	32.7
United States	12.8	8.5	12.0	17.5	36.1
Germany	6.8	11.7	5.7		0.3
Italy	6.2	2.5	2.1	3.4	
Belgium	9.4	7.4	7.1	2.5	
Netherlands	9.4	7.4	8.1	3.7	
Brazil	5.7	7.0	4.3	5.3	5.8
France	4.2	5.4	4.9	5.8	0.2
Japan	1.0	1.2	0.7	1.5	3.5
Others	15.5	16.1	19.2	23.9	21.4

(1) First 9 months.

[22] J. C. de Wilde and Bryce Wood, "U. S. Trade Ties with Argentina," *Foreign Policy Reports*, 17:22, December 1, 1941.

TABLE 24 [24]

TOTAL BRITISH INVESTMENTS IN LATIN AMERICA, 1913

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	807,622,000	16.21
Cuba	222,223,000	4.46
Dominican Republic		
Haiti		
Costa Rica	33,300,000	0.67
El Salvador	11,124,000	0.22
Guatemala	52,226,000	1.04
Honduras	15,716,000	0.32
Nicaragua	6,196,000	0.12
Panama		
Colombia	34,470,000	0.69
Venezuela	41,350,000	0.83
Totals for region	1,224,227,000	24.57
Brazil	1,161,500,000	23.31
West Coast, South American Countries:		
Bolivia	2,099,000	0.04
Chile	331,691,000	6.65
Ecuador	14,505,000	0.29
Peru	133,292,000	2.67
Totals for region	481,587,000	9.65
East Coast, Temperate Zone, South American Countries:		
Argentina	1,860,700,000	37.34
Paraguay	15,579,000	0.31
Uruguay	239,727,000	4.81
Totals for region	2,116,006,000	42.46
Totals for Latin America	4,983,320,000	100.00

[24] Max Winkler, *Investments of United States Capital in Latin America*, p. 280.

TABLE 25[25]

TOTAL BRITISH INVESTMENTS IN LATIN AMERICA, 1929

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	1,034,690,000	17.55
Cuba	237,801,000	4.04
Dominican Republic		
Haiti		
Costa Rica	27,368,000	0.47
El Salvador	9,746,000	0.18
Guatemala	57,682,000	0.99
Honduras	25,470,000	0.44
Nicaragua	4,003,000	0.08
Panama	7,500,000	0.14
Colombia	37,870,000	0.65
Venezuela	92,141,000	1.58
Totals for region	1,534,271,000	26.12
Brazil	1,413,589,000	23.97
West Coast, South American Countries:		
Bolivia	12,512,000	0.22
Chile	389,749,000	6.62
Ecuador	22,683,000	0.39
Peru	140,897,000	2.39
Totals for region	565,841,000	9.62
East Coast, Temperate Zone, South American Countries:		
Argentina	2,140,104,000	36.28
Paraguay	18,276,000	0.32
Uruguay	217,272,000	3.69
Totals for region	2,375,652,000	40.29
Totals for Latin America	5,889,353,000	100.00

[25] *Ibid.*, p. 283.

TABLE 26[26]

TOTAL BRITISH INVESTMENTS IN LATIN AMERICA, 1939
(In United States Dollars)

Latin American Nations	Amount (1)	Per Cent of Total
Caribbean Countries:		
Mexico	765,550,040	15.60
Cuba	152,577,760	3.11
Dominican Republic		
Haiti		
Costa Rica	20,846,380	0.42
El Salvador	4,878,940	0.10
Guatemala	47,458,780	0.97
Honduras	7,540,180	0.15
Nicaragua	1,774,160	0.04
Panama		
Colombia	25,725,320	0.52
Venezuela	83,829,060	1.78
Totals for region	1,110,180,620	22.62
Brazil	1,157,639,400	23.59
West Coast, South American Countries:		
Bolivia	19,959,300	0.40
Chile	381,444,400	7.77
Ecuador	19,515,760	0.39
Peru	129,957,220	2.65
Totals for region	550,876,680	11.22
East Coast, Temperate Zone, South American Countries:		
Argentina	1,900,568,000	38.73
Paraguay	14,193,280	0.28
Uruguay	174,311,220	3.55
Totals for region	2,089,072,500	42.57
Totals for Latin America	4,907,769,200	100.00

(1) British pounds were converted into United States dollars at the rate of 4.4354.

[26] *Inter-American Statistical Yearbook, 1940*, p. 475.

TABLE 27 [27]

TOTAL UNITED STATES INVESTMENTS IN LATIN AMERICA, 1913

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	800,000,000	64.36
Cuba	220,000,000	17.70
Dominican Republic	4,000,000	0.32
Haiti	4,000,000	0.32
Costa Rica	7,000,000	0.56
El Salvador	3,000,000	0.24
Guatemala	20,000,000	1.61
Honduras	3,000,000	0.24
Nicaragua	3,000,000	0.24
Panama	5,000,000	0.40
Colombia	2,000,000	0.16
Venezuela	3,000,000	0.24
Totals for region	1,074,000,000	86.40
Brazil	50,000,000	4.02
West Coast, South American Countries:		
Bolivia	10,000,000	0.80
Chile	15,000,000	1.21
Ecuador	10,000,000	0.80
Peru	35,000,000	2.82
Totals for region	70,000,000	5.63
East Coast, Temperate Zone, South American Countries:		
Argentina	40,000,000	3.22
Paraguay	3,000,000	0.32
Uruguay	5,000,000	0.40
Totals for region	48,000,000	3.94
Totals for Latin America	1,242,000,000	100.00

[27] Max Winkler, *op. cit.*, p. 275.

TABLE 28[28]

TOTAL UNITED STATES INVESTMENT IN LATIN AMERICA, 1929

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	1,550,096,000	27.68
Cuba	1,525,900,000	27.31
Dominican Republic	23,950,000	0.43
Haiti	30,743,000	0.55
Costa Rica	35,700,000	0.64
El Salvador	15,320,000	0.26
Guatemala	38,225,000	0.68
Honduras	12,967,000	0.23
Nicaragua	24,000.000	0.43
Panama	36,381,000	0.65
Colombia	260,532,500	4.66
Venezuela	161,565,000	2.91
Totals for region	3,715,379,500	66.43
Brazil	476,040,000	8.53
West Coast, South American Countries:		
Bolivia	133,382,250	2.40
Chile	295,732,800	7.08
Ecuador	25,000,000	0.46
Peru	150,889,000	2.80
Totals for region	605,004,050	12.74
East Coast, Temperate Zone, South American Countries:		
Argentina	611,474,750	10.95
Paraguay	15,250,000	0.28
Uruguay	64,345,800	1.16
Totals for region	691,070,550	12.39
Totals for Latin America	5,587,494,100	100.00

[28] Max Winkler, *Ibid.*, p. 278.

TABLE 29[39]

UNITED STATES DIRECT INVESTMENT IN LATIN AMERICA, 1936

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	479,465,000	17.11
Cuba	666,254,000	23.77
Dominican Republic	40,705,000	1.45
Haiti	9,671,000	0.35
Costa Rica	13,286,000	0.47
El Salvador	17,164,000	0.61
Guatemala	50,387,000	1.80
Honduras	36,425,000	1.30
Nicaragua	4,466,000	0.16
Panama	26,688,000	0.95
Colombia	107,549,000	3.84
Venezuela	186,266,000	6.65
Totals for region	1,638,326,000	58.45
Brazil	194,345,000	6.93
West Coast, South American Countries:		
Bolivia	18,337,000	0.65
Chile	483,736,000	17.26
Ecuador	4,941,000	0.18
Peru	96,052,000	3.43
Totals for region	603,066,000	21.52
East Coast, Temperate Zone, South American Countries:		
Argentina	348,268,000	12.42
Paraguay	5,077,000	0.18
Uruguay	13,917,000	0.50
Totals for region	367,262,000	13.10
Totals for Latin America (1)	2,802,999,000	100.00

(1) Not including $36,501,000 invested in the Bahamas, Bermuda, Jamaica, Netherlands West Indies, Trinidad, and French West Indies; nor does it include $7,501,000 invested in the Guianas.

[39] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 1*, p. 12.

TABLE 30 [30]

UNITED STATES DIRECT INVESTMENT IN LATIN AMERICA, Dec. 31, 1940

(In United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico	357,927,000	13.23
Cuba	559,797,000	20.69
Dominican Republic	41,895,000	1.55
Haiti	12,479,000	0.46
Costa Rica	24,726,000	0.91
El Salvador	11,204,000	0.41
Guatemala	68,224,000	2.52
Honduras (1)	38,267,000	1.41
Nicaragua	8,858,000	0.33
Panama	36,815,000	1.36
Colombia	111,616,000	4.13
Venezuela	262,376,000	9.70
Totals for region	1,534,184,000	56.70
Brazil	240,109,000	8.87
West Coast, South American Countries:		
Bolivia	26,829,000	0.99
Chile	413,983,000	15.30
Ecuador	5,107,000	0.19
Peru	81,597,000	3.02
Totals for region	527,516,000	19.50
East Coast, Temperate Zone, South American Countries:		
Argentina	387,945,000	14.34
Paraguay	5,037,000	0.19
Uruguay	10,918,000	0.40
Totals for region	403,900,000	14.93
Totals for Latin America (2)	2,705,709,000	100.00

(1) Including British Honduras.

(2) Not including $59,762,000 invested in the British, French, and Netherlands West Indies; nor does it include $5,965,000 invested in the Guianas.

[30] U. S. Bureau of Foreign and Domestic Commerce, *Economic Series 20*, p. 13.

TABLE 31 [a]

UNITED STATES PORTFOLIO INVESTMENTS IN LATIN AMERICA, Dec. 31, 1940

(Par Value in United States Dollars)

Latin American Nations	Amount	Per Cent of Total
Caribbean Countries:		
Mexico		
Cuba	60,900,000	6.13
Dominican Republic	7,200,000	0.76
Haiti	5,600,000	0.56
Costa Rica	8,000,000	0.81
El Salvador	4,100,000	0.41
Guatemala	2,700,000	0.27
Honduras		
Nicaragua		
Panama	11,100,000	1.12
Colombia	122,000,000	12.28
Venezuela		
Totals for region	221,600,000	22.31
Brazil	255,300,000	25.71
West Coast, South American Countries:		
Bolivia	53,600,000	5.40
Chile	183,500,000	18.48
Ecuador		
Peru	54,000,000	5.46
Totals for region	291,100,000	29.31
East Coast, Temperate Zone, South American Countries:		
Argentina	190,500,000	19.18
Paraguay		
Uruguay	34,600,000	3.48
Totals for region	225,100,000	22.66
Totals for Latin America	993,100,000	100.00

[a] Paul Dickens, "Status of U. S. Investment in Foreign Dollar Bonds, End of 1940," *Foreign Commerce Weekly*, 4:4, July 19, 1941.

TABLE 32 [a]

AREA AND ROAD MILEAGE OF LATIN AMERICAN NATIONS

(Data for Close of 1939)

	Area in Square Miles	Road Mileage	Square Miles of Area to 1-Mile Road
Latin American Nations:			
Caribbean Countries:			
Mexico	767,258	56,923	13.5
Cuba	44,164	2,214	19.9
Dominican Republic	19,332	2,141	9.0
Haiti	10,207	1,545	6.6
Costa Rica	23,000	405	56.8
El Salvador	13,176	3,709	3.5
Guatemala	42,364	3,786	11.2
Honduras	46,250	693	66.6
Nicaragua	49,213	1,550	31.7
Panama	32,388	870	37.2
Colombia	497,300	14,336	34.7
Venezuela	393,976	5,882	67.0
Brazil	3,280,000	129,057	25.4
West Coast, South American Countries:			
Bolivia	613,899	10,154	60.4
Chile	286,296	22,613	12.4
Ecuador	174,000	3,311	52.7
Peru	524,800	16,559	31.6
East Coast, Temperate Zone, South American Countries:			
Argentina	1,153,417	253,115	4.6
Paraguay	176,000	3,759	46.8
Uruguay	72,172	22,487	3.2
Totals	8,218,212	555,109	14.8
United States	3,026,789	3,065,000	1.0

[a] U. S. Bureau of Foreign and Domestic Commerce, *International Reference Service*, Vol. 1, No. 62, p. 1.

TABLE 33 [33]

LENGTH OF RAILWAY LINES OPERATED IN LATIN AMERICA, 1939

	Miles
Latin American Nations:	
Caribbean Countries:	
Mexico	14,275
Cuba	3,029
Dominican Republic	148
Haiti	158
Costa Rica	413
El Salvador	378
Guatemala	737
Honduras	81
Nicaragua	229
Panama	82
Colombia	2,067
Venezuela	646
Brazil	21,205
West Coast, South American Countries:	
Bolivia	1,294
Chile	5,482
Ecuador	703
Peru	2,618
East Coast, Temperate Zone, South American Countries:	
Argentina	26,576
Paraguay	407
Uruguay	1,690
Total for Latin America	82,218
Canada	42,719
United States	249,935

[33] Mileage computed from table given in kilometers, *Inter-American Statistica Year Book, 1940*, p. 446.

TABLE 34 [34]

POPULATION OF LATIN AMERICA

(000's Omitted)

	Population	Inhabitants per Square Mile
Latin American Nations:		
Caribbean Countries:		
Mexico	19,479	25.2
Cuba	4,165	90.1
Dominican Republic	1,587	76.7
Haiti	2,600	259.0
Costa Rica	623	26.2
El Salvador	1,704	126.9
Guatemala	3,045	58.0
Honduras	1,000	16.3
Nicaragua	900	13.0
Panama	548	16.6
Colombia	8,725	20.2
Venezuela	3,552	9.8
Brazil	44,116	13.0
West Coast, South American Countries:		
Bolivia	3,283	6.0
Chile	4,644	16.1
Ecuador	3,000	17.1
Peru	6,147	12.7
East Coast, Temperate Zone, South American Countries:		
Argentina	12,958	11.9
Paraguay	932	5.2
Uruguay	2,120	29.0
United States	130,215	42.7

[34] *Inter-American Statistical Year Book, 1940*, p. 51.

TABLE 35 [35]

EXPORT-IMPORT BANK LOANS TO LATIN AMERICA, May 31, 1942

(In United States Dollars)

Latin American Nations	Net Commitments	Amount Disbursed	Amount Repaid	Undisbursed
Caribbean Countries:				
Mexico	37,149,291	11,069,193	1,093,407	26,082,528
Cuba	78,478,473	38,478,473	38,478,473	40,000,000
Dominican Republic	3,300,000	1,130,430	239,645	2,169,570
Haiti	13,250,000	5,480,000	90,000	7,770,000
Costa Rica	6,374,607	1,874,607	274,607	4,500,000
El Salvador	1,196,000	50,000		1,146,000
Honduras	2,700,000			2,700,000
Nicaragua	5,150,000	2,650,000	315,833	2,500,000
Panama	2,500,000	2,450,000	272,500	50,000
Colombia	22,181,385	11,741,385	1,427,307	10,440,000
Venezuela	29,933,000	3,192,178	116,333	26,740,822
Totals for region	202,212,756	78,116,266	42,308,105	124,098,920
Brasil	103,609,529	40,299,068	31,555,444	67,310,461
West Coast, South American Countries:				
Bolivia	16,962,000	529,344	500	16,432,656
Chile	29,467,330	9,450,218	1,912,850	20,242,112
Ecuador	14,255,000	564,715	68,475	13,690,285
Peru	25,000,000			25,000,000
Totals for region	85,684,330	10,544,277	1,981,825	75,365,053
East Coast, Temperate Zone, South American Countries:				
Argentina	61,120,000	130,000	45,000	60,990,000
Paraguay	6,500,000	2,770,000	254,350	3,930,000
Uruguay	19,585,000	33,893		19,551,107
Totals for region	87,205,000	2,933,893	299,350	84,471,107
Special credits applicable to more than one country	182,000,000	17,566,000	4,339,265	164,434,000
Totals for Latin America	660,711,616	149,459,504	80,483,989	515,679,541

[35] Inter-American Development Commission, *Bulletin 10*, p. 7.

TABLE 36 [35]

RATIO OF DUTIABLE TO TOTAL UNITED STATES IMPORTS FROM LATIN AMERICA BY COMMODITY GROUPS, 1938

(Value in Thousands of United States Dollars)

Commodity Group	*Totals*	*Ratio of Dutiable to Total (Per Cent)*
Vegetable food products and beverages (chiefly coffee, sugar, bananas, cacao, molasses)	276,000	36.7
Vegetable products, inedible, except fibers and woods (chiefly flaxseed, tobacco, carnauba wax, castor beans, quebracho extract)	45,367	73.8
Metals and manufactures, except machinery and vehicles (chiefly unrefined copper, and manganese ore)	37,895	8.1
Non-metallic minerals (chiefly petroleum)	20,397	83.1
Textile fibers and manufactures (chiefly wool, sisal, henequen)	17,415	24.7
Animals and animal products, edible (chiefly canned beef and cattle)	14,754	85.6
Chemicals and related products (chiefly sodium nitrate)	14,596	3.1
Animals and animal products, inedible (chiefly hides and skins)	14,175	29.4
Wood and paper (chiefly cabinet woods)	1,588	56.4
Machinery and vehicles	108	60.2
Miscellaneous	5,101	6.2
Total	447,398	39.7

[35] United States Tariff Commission, *The Foreign Trade of Latin America*, Part I, p. 94.

TABLE 37 [37]

Development of Latin American Foreign Exchange Control, as of February, 1942

Country	Never Employed	No Longer Employed	Now in Force	Date Control First Inaugurated	Date Prevailing Control Inaugurated	Function without Gov't Control	Function through Gov't or Control Board	% of Export Exchange Proceeds Delivered at Official Rate	Discriminates between Commodities	Discriminates between Countries	Import Licensing in Force
Argentina			×	1931	1933		×	90 (2)(*V*)	×	×	×
Bolivia			×	1931 (1)	1938		×	(*V*)	×		
Brasil			×	1931	1937		(7)	100		(9)	
Chile			×	1931	1931		×	(*V*)	×	× (9)	×
Colombia			×	1931	1937		(7)	100 (5)	×	(9)	×
Costa Rica			×	1932	1932		× (*N*)	100		×	
Cuba	×		(*N*)			×					
Dom. Rep.	×					×					×
Ecuador		×		1933		×					×
El Salvador	×					×					
Guatemala	×					×					
Haiti	×					×					
Honduras			×	1934	1934		(7)	100	×		
Mexico	×					×					
Nicaragua			×	1932	1938		(8)	100 (6)	×	(9)	
Panama	×					×					
Paraguay			×	1932	1938			100 (4)	×		
Peru	×					×					
Uruguay			×	1932	1934		(7)(8)	(*V*)	×	×	×
Venezuela			×	1934	1937	×		100 (3)(10)	×		×

(*N*) Nominal.
(*V*) Varies.
(1) Official.
(2) With minor exceptions.
(3) Gov't pays attractive rate.
(4) Authorized. Status now unknown.
(5) With certain exceptions.
(6) With many exceptions.
(7) No free market.
(8) Free market at gov't discretion.
(9) Through clearing or compensation agreements.
(10) Applies to subsidized products only.

[37] *Inter-American Statistical Yearbook, 1940*, pp. 480–481.

TABLE 38 [38]

PROGRESS OF INTER-AMERICAN ECONOMIC COOPERATION, AS OF JUNE, 1942

Country	Increased Exports to U. S.	Increased Imports from U. S.	Export-Import-Bank Loans	Signatories Inter-American Bank	U. S. Purchase Strategic and Critical Materials	Trade Agreements with U. S.	U. S. Technical Assistance and Surveys	Loans Offered by U. S. Stabilization Fund	National Councils of Inter-American Dev'l Comm.	Agreement on Use of Immobilized Shipping	Parallel Export Control Systems	Signatories Inter-American Coffee Agreement	Negotiating for Cacao Agreement
Argentina	X	X	X		X	X		X	X	X	X		
Bolivia	X	X		X	X		X		X	X	X		
Brazil	X	X	X	X	X	X	X	X	X	X	X	X	X
Chile	X	X	X		X	X	X		X	X	X		
Colombia	X	X	X	X	X	X	X		X	X	X	X	X
Costa Rica	X	X	X		X	X	X		X	X	X	X	X
Cuba	X	X	X		X	X	X		X	X	X	X	X
Dom. Rep.	X	X	X	X			X		X	X	X	X	X
Ecuador	X	X	X	X	X	X	X	X	X	X	X	X	X
El Salvador	X	X			X	X	X		X	X	X	X	X
Guatemala	X	X			X	X	X		X	X	X	X	X
Haiti	X	X	X		X	X	X		X	X	X	X	X
Honduras	X	X			X	X	X		X	X	X	X	X
Mexico	X	X	X	X	X		X	X	X	X	X	X	X
Nicaragua	X	X	X	X	X	X	X		X	X	X	X	X
Panama	X	X	X				X		X	X	X		X
Paraguay	X	X	X	X			X		X	X	X		
Peru	X	X	X		X	X	X		X	X	X	X	X
Uruguay	X	X	X			X			X	X	X		
Venezuela	X	X	X		X	X	X		X	X	X	X	X

[38] This table was taken up to September, 1941, in Paul Nitze, "Progress of Inter-American Economic Cooperation," *Foreign Commerce Weekly*, 4 : 11, September 6, 1941. The data from that date to June, 1942, were furnished by the Division of Financial and Economic Information, Pan American Union.

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